March 21, 2019

Brent J. Fields, Secretary
File Number S7-26-18
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Request for Comment on Earnings Releases and Quarterly Reports

Dear Mr. Fields:

We appreciate the opportunity to provide our views regarding the Securities and Exchange Commission's ("SEC" or "Commission") Request for Comment on Earnings Releases and Quarterly Reports (the "request for comment"). We support the SEC's efforts to maintain or enhance the investor protection attributes of periodic disclosures while reducing administrative and other burdens on reporting companies associated with quarterly reporting.

Company Background

CIT Group Inc., and its principal bank subsidiary CIT Bank, N.A. (together "CIT"), provides financing, leasing, and advisory services principally to middle-market companies and small businesses across a wide variety of industries. CIT also offers products and services to consumers through its Internet bank franchise and a network of retail branches in Southern California, operating as OneWest Bank, a division of CIT Bank, N.A. (Member FDIC, Equal Housing Lender). CIT is a large accelerated filer.

Response and Comments

We have not responded to each of the questions individually, but rather have provided our thoughts in summary form with respect to each of the four key themes outlined in the request for comment, and what we considered to be the key questions relating to each.[1]

A. <u>Information Content Resulting from the Quarterly Reporting Process</u>

Form 10-Q information is highly standardized and comparable across companies. Information in earnings releases is not typically as standardized and may be presented differently by different companies. The SEC is requesting comment on whether an earnings release provides beneficial information to investors in addition to the information disclosed in the Form 10-Q. The SEC is also seeking input on which document investors use as their primary source of information and what sections of the 10-Q investors find especially informative, and whether there are sections that could be eliminated.

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[1] References to the SEC's original question numbers are indicated parenthetically following each question.

We believe that the earnings release provides beneficial information to investors in addition to the information disclosed in the Form 10-Q. It is our observation that many investors may be using the earnings release as their primary source of information, given that it is typically released before the Form 10-Q is filed. In addition, analysts following our company typically issue their updates just after our earnings call, while it is generally infrequent to have an analyst issue or update their analysis following the issuance of the Form 10-Q. We recommend the SEC undertake an analysis of what sections of the Form 10-Q may be streamlined or eliminated because the disclosures they elicit are not material.

Key Questions:

- **Why do companies choose to issue quarterly earnings releases, and how do they determine what information to provide?** *(Questions 1 and 3)*

  We believe that most companies provide the information they believe is key to understanding the financial and strategic performance of the company in their earnings releases. This includes financial results, key financial metrics, explanation of significant fluctuations from prior period results, and progress on their strategic priorities.

  Our view is that the earnings release provides beneficial information to investors by:

  - *Focusing on the most immediate factors that impact the financial position and results of operations of a company, while deferring certain detailed supporting disclosures until the Form 10-Q is filed;*
  - *Reporting key financial performance and metrics (e.g., net income per share) in a more easily consumable format. Earnings releases may also include an overview of results, including significant transactions, an overview of the Company's strategies, and forward looking statements while potentially leveraging a more streamlined presentation.*
  - *When accompanied by an earnings call, the earnings release gives investors an opportunity to ask management questions about the results and the business.*

- **Do investors rely more on earnings releases or on Forms 10-Q when both are made available, and why?** *(Question 4)*

  We believe that investors react to the earnings release more than they do the Form 10-Q because it typically comes first, provides information on the key transactions and performance metrics for the period and is usually accompanied by an earnings call with management, where trends may be further discussed. Typically, analysts following a company provide an update after the earnings release but rarely change their EPS estimates after the filing of the Form 10-Q. However, the Form 10-Q does provide further detail to support the key transactions that are reported in the earnings release, as well as the ordinary course of business transactions that occur quarter to quarter.

- **What are the benefits of the required Form 10-Q disclosures to investors and the marketplace that are not provided by the earnings releases? Do investors find sections of the Form 10-Q especially informative, and are there sections that the SEC should eliminate because the disclosures they elicit are not material?** *(Question 9)*

We believe that the Form 10-Q provides additional detail to the earnings release on financial performance and trends, as well as other information related to the business's risks and opportunities. The Form 10-Q ensures uniformity among companies, as it prescribes certain required disclosures, while there is generally not the same level of uniformity with respect to the format of earnings releases. Also, information in the Form 10-Q is reviewed by a company's independent auditors, which provides limited assurance to the public regarding the accuracy of data presented and that GAAP is being applied in a consistent manner.

In addition, Form 10-Q disclosures include information not typically provided in earnings releases such as:

- *Statements of Cash Flows, and Stockholder Equity roll forward, as well as detail regarding debt or equity issuances;*
- *Disclosures that update the most recently audited Form 10-K filings for significant changes.*

However, we believe there may be some redundancies in the Form 10-Q disclosures, between the MD&A and notes to the financial statements, which should be reviewed by the Commission. For many banks, for example, areas of potential redundancy may include information presented in the Loan note that is also in the Credit Metrics section of the MD&A, and the information in the Borrowings footnote that is also in the Funding and Liquidity section of the MD&A. In addition, we believe that the Commission should consider whether there are opportunities to streamline required disclosures in certain sections of the Form 10-Q, e.g., accounting policies, business risks, fair value disclosures and significant accounting estimates, particularly when there have been no significant changes from disclosures made in the previous filing of the Form 10-K or prior Form 10-Qs.

- **Should the Commission consider making changes to its rules that would discourage the practice of providing quarterly forward-looking earnings guidance?** *(Question 8)*

No. Each company is different and may experience changes in their strategy and business model over time. As such, companies benefit from the flexibility to use their own judgement as to how to appropriately inform and guide investors. Further, we believe it should be up to the individual registrants to determine whether they will provide quarterly or annual guidance based on what they perceive to be the expectations of their stakeholders.

- **What costs are associated with Form 10-Q preparation, and are there alternatives (e.g., the elimination of certain disclosures) that may reduce some of those costs?** *(Question 12 & 14)*

The costs associated with the preparation of the Form 10-Q are significant considering the resources necessary to compile and tag the financial statements, perform internal management analysis as well as internal and external accounting and legal review.

As noted previously, we believe there are certain redundancies in the Form 10-Q between information provided in the notes to the financial statements and the MD&A, and certain disclosures that we believe are not material to investors. If those redundancies could be eliminated, it would streamline the time to prepare and review the Form 10-Q and reduce costs without a negative impact on disclosure effectiveness.

B. <u>Timing of the Quarterly Reporting Process</u>

Some reporting companies issue an earnings release in conjunction with filing their Form 10-Q, while others issue one earlier. The SEC is requesting comment on what drives the timing of information released to the public and how that timing affects investors and other market participants.

We believe that the pace of technological progress and investor expectations will continue to drive the acceleration of the financial reporting schedule. Our observation is that investors have an appetite for information to be provided as quickly as possible. The challenge for companies is the time it takes to compile, review, and organize the information in a way that aids the reader's ability to understand the data.

Key Questions:

- **Why do some companies publish an earnings release before filing Form 10-Q while other companies publish an earnings report and file Form 10-Q on the same day or near the same time?** *(Question 15)*

  We believe that companies, including ourselves, consider the earnings release to be similar to an executive summary, because it provides key results and earnings for the quarter, how they compare to prior periods, trends in various financial metrics, and a summary from management about the important items that impacted the results for the quarter.

  Releasing earnings in advance of the filing of the Form 10-Q has been a long-standing practice. While the federal securities laws do not address whether issuers should release earnings in advance of filing the required SEC reports, a variety of factors encourage issuers to do so. First and foremost, the investment community generally expects issuers to report quarterly financial results in a reasonable time frame, commensurate with their peers. The timing of reporting earnings requires a balance of resources in preparing the financial information, conducting the appropriate level of due diligence and meeting the timing expectations of investors.

- **What is the impact on investors and other market participants participating in earnings calls when a company publishes its earnings release before filing its Form 10-Q? Are the resulting disadvantages to investors the same as those of publishing the fourth-quarter earnings release before the Form 10-K is filed?** *(Question 16)*

  We consider the difference between a quarterly earnings release prior to the filing of the Form 10-Q and the fourth quarter earnings release prior to the filing of the Form 10-K to be very minimal, as both earnings releases are very similar. We believe that the information that may be most important to the investor regarding key transactions, trends, and performance metrics is initially communicated in the earnings release, thus we do not believe that there is a significant disadvantage to investors.

  As indicated in our response to "C" below, we are recommending that consideration be given to requiring that the Form 10-Q be streamlined and filed with, or on the same day, as the earnings release, effectively advancing the timeline for filing the Form 10-Q disclosures. At year-end, we believe that the earnings release should be filed in advance of the Form 10-K, as the Form 10-K is a much more comprehensive document and requires an audit opinion.

- **To what extent are auditors involved with earnings releases? Does the quarterly review work that is required have any effect on the amount of time between the issuance of an earnings release and the filing of a Form 10-Q?** *(Question 17)*

  The auditors typically read the earnings release in an effort to ensure that there are no statements being made that are inconsistent or inaccurate, but the auditors do not perform a "review" or any other "audit like" procedures on the earnings release. Auditors typically complete planned quarterly inquiries and review significant transactions prior to the earnings release. The auditors also provide an update on the status of the quarterly review procedures at Audit Committee meetings prior to the earnings release; however, this does not represent assurance on the earnings release or completion of the required quarterly review procedures as the review procedures performed by the auditor on the Form 10-Q in accordance with rules prescribed by the PCAOB are significantly more extensive.

C. <u>Earnings Release as the Core Quarterly Disclosure</u>

The SEC asked for comments about whether earnings releases can satisfy the core financial disclosure requirements of Form 10-Q to alleviate quarterly reporting burdens. The SEC asked whether this approach can maintain investor protection while avoiding duplication of efforts.

We think this option merits further analysis. Ultimately, the ability to leverage the flexibility of the earnings release to present information to investors in a way the company believes would be most useful in decision making, coupled with the "right" level of standardization of the Form 10-Q, would be ideal in allowing for quicker data dissemination on a more cost effective basis.

As the flexibility inherent in the earnings release allows for an explanation of a company's results through the eyes of management, which is the spirt of MD&A, we also recommend that consideration be given to requiring that the Form 10-Q be filed with, or on the same day, as the earnings release for all companies. In connection with this, we also believe guidelines should be developed to streamline filings by reducing the redundancy of information among the earnings release, Form 10-Q MD&A and Form 10-Q notes to the financial statements. We believe streamlining of Form 10-Q requirements would provide opportunities for acceleration of filings, and we are advocating for advancing the timing of Form 10-Q filings and we are not recommending delay in issuance of earnings releases.

For some companies, smaller ones in particular, aligning the filing requirements of the earnings release and the Form 10-Q may pose operational challenges in light of legacy processes; however, we believe that if the Commission is successful in streamlining the Form 10-Q requirements, the process can be more efficient for all companies (including smaller ones), while maintaining or enhancing disclosure effectiveness. Alternatively, the Commission could determine that smaller companies would be afforded alternative filing requirements, or be given a longer transition timeline.

Key Questions:

- **Should the Commission provide an option for companies that issue earnings releases to use the releases to satisfy the core financial disclosure requirements of Form 10-Q?**
  Under this option, a company would use its Form 10-Q to supplement a Form 8-K earnings release with additional material information required by the Form 10-Q not already presented in the

Form 8-K or alternatively incorporate by reference disclosure from the Form 8-K earnings release into its Form 10-Q. *(Topic C Summary)*

We believe it would be beneficial for the Commission to provide an option to allow companies to use the earning release to satisfy the core financial disclosure requirements of Form 10-Q.

Some of the potential benefits that could arise as a result of viewing the earnings release as a "core quarterly disclosure":

- *Could help accelerate the financial reporting schedule;*
- *Would save time and resources related to quarterly reporting noted above;*
- *Would minimize duplicative information*
- *Would provide additional assurance if information in the earnings release is subject to review by auditors under PCAOB rules as part of the process.*

Some potential disadvantages of viewing the earnings release as a "core quarterly disclosure":

- *Potential to lose flexibility on deciding how to describe financial results to investors. The SEC does not specify requirements for the form and content of voluntary earnings releases. As a result, companies have some latitude in deciding how to describe their results to investors. If companies were allowed to use these releases to satisfy the requirements of Form 10-Q, a company that did so could lose some of that flexibility.*
- *Cost to tag and file XBRL with the SEC, although the tagging of the earnings release could be a benefit to investors.*

- **Is the required quarterly reporting process complex and burdensome for investors or companies? If so, in what ways, and what approaches should the Commission consider to simplify that process?** *(Question 18)*

  It is currently burdensome for both the investors and companies due, in part, to the overlap / duplicative information contained in both the earnings release and the Form 10-Q, and the redundancies within the Form 10-Q in order to comply with accounting standard disclosure rules and those of the SEC. These duplications and redundancies make it more onerous for the investor to read through the entire Form 10-Q, and for the companies to compile it in a fashion that would make the document as clear and concise as possible for the investor.

- **Should Commission rules, accounting standards, and auditing standards allow for the interim financial statements to be separated so that certain parts could be presented only in the earnings release? If so, which types of required disclosures should be permissible for a company to provide solely in its earnings release?** *(Question 19)***:**

  If information provided in the earnings release was not required to be repeated in the Form 10-Q, this would eliminate redundancies that currently exist and would allow for a more streamlined quarterly reporting process. For instance, the earnings release provides insight into the quarterly results. That information is essentially repeated throughout the MD&A. Reducing the overlap, would streamline the Form 10-Q and enhance its effectiveness as a source of information.

- **Would this approach have any impact on registration statements?** *(Question 23)*

  If a company filed the earnings release at the same time as the Form 10-Q, and wanted to issue debt, then that company would incorporate the earnings release by reference, assuming it contains all of the key financial statements.

  Currently, any material information in the earnings release is repeated in the 10-Q. If a company were to issue debt, the Form 10-Q is normally incorporated by reference, so it effectively incorporates any material information in the Form 10-Q in its offering documents, and does not need to incorporate the earnings release. However, if the rules were to change so that companies can split disclosures of material information between the earnings release and the 10-Q, and filers are not required to repeat material information from the earnings release in the 10-Q, then companies will need to incorporate both the earnings release and the Form 10-Q by reference in any offering documents.

- **What effect would this approach have on the auditor's review procedures?** *(Question 28)*

  If the earnings release were considered a core financial disclosure, then the involvement of the auditor in the review of the earnings release will change significantly. Currently the auditor does not review the earnings release, they read it to ensure there are no inaccuracies or inconsistencies but they don't perform a "review". If that changes, then the question becomes: would the auditor be required to "review" the entire earnings release or only the portions that were transferred from the Form 10-Q?

D. <u>Reporting Frequency</u>

The SEC wants to better understand how reporting frequency affects the benefits and costs to investors and companies and compare the differences between quarterly and semiannual reporting.

We support continued quarterly reporting requirements to provide investors with timely and decision-useful information. However, we also request consideration be given to reducing the overlap between the earnings release and the Form 10-Q, and within the Form 10-Q. By doing so, companies would save time and cost in the preparation and review of the Form 10-Q, while the investor receives a more effective document.

Key Questions:

- **Does the frequency of reporting lead managers to focus on short-term results to the detriment of long-term performance? Why or why not?** *(Question 30)*

  We do not believe that changing the required reporting frequency from quarterly to semiannually would result any significant change in management focus.

- **What effect, if any, would a change in reporting frequency have on earnings releases or other filings (e.g., Forms 8-K, registration statements)?** *(Question 35)*

When companies report earnings semi-annually, investors have to rely on alternative information sources. We note a January 2018 paper entitled "Does Financial Reporting Frequency Affect Investors' Reliance on Alternative Sources of Information? Evidence from Earnings Information Spillovers Around the World" by Salman Arif and Emmanuel T. De George which finds, in part that by relying on alternative information sources, investors "may be overreacting, rather than under-reacting, to alternative sources of earnings news".

Even with a switch to semi-annual reporting, companies would have to continue keeping investors informed of important events or other information that could impact stock prices. For example, companies would still need to file Form 8-K reports with the SEC to notify investors of current events, and would also be required to comply with Regulation FD (Fair Disclosure) requirements and make publicly available any price-sensitive information they want to disclose to stock analysts or investors.

We have also noted research that implies that companies might determine that quarterly reporting is appropriate regardless of regulatory requirements. For example, companies in the U.K. and Europe, which currently are required to file semi-annual financial reports (since 2014); continue to disseminate quarterly reports, due to expectations by investors, analysts and portfolio managers.

- **Should the SEC 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?** *(Question 36)*

  We believe that there needs to be some element of uniformity in the required disclosures so that there is consistency amongst registrants.

  We support quarterly reporting because it gives investors access to timely and decision-useful information which is particularly important in periods leading up to and during recessions and other financial stress events. In our view, benefits of quarterly reporting in comparison to semi-annual reporting include: (i) reduced ad hoc data requests during the year from investors and ratings agencies (ii) limitations on the period of time employees are in possession of materially non-public information and (iii) the provision of financial data for quarterly updates required by certain private and public debt facility agreements.

If you have questions about our comments or wish to discuss the matters addressed in this comment letter, please contact Edward K. Sperling, Executive Vice President & Corporate Controller, at [redacted] ([redacted]), or Steve Geiger, Senior Vice President, External Reporting and Accounting Policies, at [redacted] ([redacted]).

Sincerely,

Edward K. Sperling
Executive Vice President & Corporate Controller
CIT Group Inc.