

July 22, 2019

Office of the Commissioners
U.S. Securities and Exchange Commission
100 F Street, NE Washington, DC 20549
VIA E-MAIL: rule-comments@sec.gov

Re: Roundtable on Short-Term / Long-Term Management of Public Companies, Our Periodic Reporting System and Regulatory Requirements File No. S7-26-18

Dear Commissioners:

We would like to offer our warmest thanks for including FCLTGlobal (Focusing Capital on the Long Term) in the Securities and Exchange Commission's Roundtable on July 18 on the subject of, "Short-Term/Long-Term Management of Public Companies, Our Periodic Reporting System and Regulatory Requirements" and take this opportunity to share a few of the documents referenced during our remarks.

As was emphasized during the conversation, public markets are critical to the capital allocation process and, we believe, a key contributor to economic growth.¹ The original purpose of the capital markets was to connect savers on the one hand that need to earn a fair return on their investments and corporations on the other hand that need capital to fund their growth and operations. But there are short-term pressures inherent in the markets today that are causing real harm.

For example, 87% of executives say they feel pressure to deliver results in two years or less,² 55% of CFOs admit they would forego an NPV positive project to hit short-term targets,³ 86% of executives agree a longer horizon for business decisions would improve performance,⁴ and 74% of public company directors say that short-term pressure has compromised management's focus on strategic goals.⁵ Despite these short-term pressures, some companies do manage their businesses with the long horizon in mind. In an analysis of over 600 mid- and large-cap publicly listed U.S. companies from 2001 – 2015 McKinsey determined:

- Long-term firms grew revenues 47% more on average and with less volatility.
- Long-term firms grew earnings by 36% more and grew profit by 81% more on average.
- Long-term firms added 12,000 more jobs on average at their companies and grew their market capitalizations by \$7B more than average.

¹ FCLTGlobal, "Public Markets for the Long Term: How Successful Listed Companies Thrive," January 2019, https://www.fcltglobal.org/docs/default-source/publications/public-markets-for-the-long-term.pdf?sfvrsn=267b218c_3.

² McKinsey Quarterly Survey, 2016; McKinsey analysis, FactSet, S&P.

³ Graham, et al. "The economic implications of corporate financial reporting", December 2005, *Journal of Accounting and Economics*. <https://doi.org/10.1016/j.jacceco.2005.01.002>.

⁴ McKinsey Quarterly Survey, 2016; McKinsey analysis, FactSet, S&P.

⁵ NACD Public Company Governance Survey 2017-2018.

We find there are key levers we can pull that influence short-term or long-term behavior:

- Governance provides the foundation for long-term value creation.
- Incentive alignment across the value chain and over time is critical.
- Engagement across the investment value chain provides staying power to pursue long-term goals.
- Strategies for innovation, talent, capital allocation and risk management that are focused on longer horizons prove successful.

Across all four of these levers, appropriate public policy can provide the backdrop for sustainable long-term growth. The Securities and Exchange Commission (SEC) is particularly well placed to wield significant influence in the case of quarterly guidance and reporting practices.

As was emphasized in our prior comment letter to the Commission,⁶ as well as in our prior publication on the topic of guidance (*[Moving Beyond Quarterly Guidance: A Relic of the Past](#)*),⁷ there is significant evidence that quarterly earnings guidance harms companies in the long run. Conversely, there is similarly compelling evidence demonstrating the value in taking a longer-term approach to investor communications (see our publication earlier this year *[Driving the Conversation: Long-term Roadmaps for Long-term Success](#)*).⁸

To alleviate these tensions, there are several simple steps the SEC could take:

- We were pleased to hear so much agreement at the Roundtable around the detrimental nature of quarterly guidance and encourage the SEC to clarify (via Staff Compliance and Disclosure Interpretation or other public statement) that guidance of this nature is not indeed required or encouraged by the SEC.
- A second step would be to follow the advice of several other commenters during the Roundtable to compel companies who opt to continue offering short-term quarterly guidance to explain or justify why this short-term communication is necessary or desirable.
- To lend increased confidence to companies offering longer-term (3+ years) forecasts, the SEC could strengthen the Safe Harbor for forward looking information.
- Finally, we urge the SEC to 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.

⁶ FCLTGlobal, 21 March 2019, <https://www.sec.gov/comments/s7-26-18/s72618-5167609-183488.pdf>.

⁷ FCLTGlobal, "Moving Beyond Quarterly Guidance: A Relic of the Past," October 2017, https://www.fcltglobal.org/docs/default-source/publications/moving-past-quarterly-guidance---a-relic-of-the-past.pdf?sfvrsn=77a9268c_2.

⁸ FCLTGlobal, "Driving the Conversation: Long-term Roadmaps for Long-term Success," February 2019, https://www.fcltglobal.org/docs/default-source/publications/driving-the-conversation---long-term-roadmaps-for-long-term-success.pdf?sfvrsn=2bb218c_0.



We appreciate the opportunity to submit these additional remarks for consideration and thank the Commission for conducting the Roundtable. Should anyone at the SEC have any questions about the research or our remarks, we would welcome the prospect of further discussion. Our contact information is below.

Most Sincerely,

Sarah Keohane Williamson, CAIA, CFA
Chief Executive Officer

[REDACTED]

Ariel Fromer Babcock, CFA
Managing Director, Research

[REDACTED]