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Committee on Corporate Reporting

March 21, 2019

Mr. Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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

Submitted via rule-comments@sec.gov

Dear Mr. Fields:

This letter is being submitted by Financial Executives International's (FEI) Committee on Corporate Reporting (CCR) in response to the Securities and Exchange Commission's (SEC or "the Commission") *Request for Comment on Earnings Releases and Quarterly Reports* (the "Request").

FEI is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives, and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI made up of 45 Chief Accounting Officers and Corporate Controllers from the Fortune 100 and other large public companies — representing approximately $8.4 trillion in market capitalization. CCR reviews and responds to pronouncements, proposed rules and regulations, pending legislation, and other documents issued by domestic and international regulators and organizations such as the SEC, FASB, and PCAOB.

This letter represents the views of CCR and not necessarily the views of FEI or its members individually.

Executive Summary

As preparers of voluntary earnings releases and Form 10-Q filings, we provide information that investors rely on to make decisions that impact capital markets. It is our responsibility to provide information that is accurate, timely, useful, and understandable. We commend the Commission for exploring ways to promote efficiencies in the quarterly reporting process, and we support the objective of reducing unnecessary duplicate information reported to investors. However, we see significant drawbacks in expanding or further regulating the contents of the earnings release to satisfy the extensive Form 10-Q disclosure requirements. We are in favor of retaining the current process of furnishing voluntary earnings releases. Although many of our members would likely provide quarterly reporting even if not required, we encourage the SEC to evaluate feedback on this topic from the investor community, as other companies may prefer to reduce the frequency of reporting. However, it is our experience that market participants wish to receive information on a more frequent basis. Thus, rather than the frequency of filing, we are primarily focused on exploring ways to revise the content of the Form 10-Q. We believe streamlining the information included in the Form 10-Q provides the greater opportunity to improve the interim financial reporting process.

CCR has long been on record as supporting the SEC's interim reporting framework, which presumes that users of interim financial information either have read or have access to the most recent annual report. We believe the concept and application of disclosing primarily new and materially different information in Form 10-Q filings needs greater prominence. The content of interim financial statement footnotes and certain disclosure requirements of Regulation S-K can be significantly improved by realigning FASB standards and SEC rules with the SEC's framework. As one example, until recently, material contingencies were required to be disclosed every quarter even when there had not been a significant change since year end. We believe the Commission's decision to remove this requirement is an excellent example of disclosure that is better aligned with the interim reporting framework. We believe further alignment can be achieved by providing additional guidance on how to apply the concept of materiality to interim period financial statements, specifically the notion of focusing on items that are materially different versus material in the absolute. Improving the content of Form 10-Q's in this manner can reduce the cost of preparing interim financial statements while creating a more meaningful report for investors and analysts that is focused on the most material information.

We encourage the SEC to use this project, either on its own or in coordination with the FASB, to provide additional guidance on applying the concept of materiality such that disclosures only need to be updated at interim periods for material changes from the most recent Form 10-K. Further comments are provided below.

Information Content Resulting from the Quarterly Reporting Process

Each CCR member company furnishes an earnings release on Form 8-K, often in advance of issuing its respective Form 10-Q. The focus and use of these two reports differ. The earnings release plays a vital role in the timely reporting of financial results and business operating performance metrics that are most relevant to investors and analysts (often described in relation to short-term and long-term strategic plans). While the earnings release may include some liquidity information such as cash flow and share repurchases, the release primarily focuses on the results of operations and comparisons to prior periods. The earnings release allows management the flexibility to share information with investors in a way that is responsive to market needs, including both industry specific needs and temporary investor focus areas. It also allows management flexibility to decide what information is most vital to understanding the company's results, allowing for a more succinct and focused communication to investors.

In contrast, Form 10-Q expands the income statement detail for the operating results in the earnings release as well as provides supplemental information on the company's financial condition. The result is a very different report which includes the MD&A and financial statements with extensive footnotes. While companies generally include earnings releases in their disclosure controls processes (e.g. disclosure committees, audit committee review, internal certifications, etc.), we acknowledge that the Form 10-Q reflects management certifications and the independent auditor review, which we believe provides significant value to investors. The differences in form and content of the earnings release and the Form 10-Q allow them to serve unique purposes. We note that if issuers are either required to, or elect to use the earnings release to satisfy Form 10-Q disclosure requirements, companies may be slower to market in furnishing their earnings release due to the need to satisfy requirements of Regulation S-X and S-K, as well as the application of XBRL on the revised earnings release.

In addition to their distinct benefits, we believe there is value in how the earnings release and the Form 10-Q work in connection with one another. We observe that most companies seek to ensure that the earnings release includes the most critical information that will be disclosed in the Form 10-Q, thereby ensuring consistency between the two documents. The earnings release highlights for investors what management believes is the most vital information and activity during the period, thus providing investors and analysts information needed for their most critical and time-sensitive analysis while the additional information in the Form 10-Q may be used to perform further, more in-depth analysis. In this way, the two documents work together to provide a balance of information.

For these reasons, it is our view that the earnings release should remain a separate voluntary communication not included within the scope of Regulations S-X and S-K (while remaining subject to Regulation FD, Regulation G, and Form 8-K requirements).

Earnings Releases as Core Quarterly Disclosures

The Supplemental Approach

We appreciate the Commission's efforts to explore an alternative approach to the quarterly reporting process. However, it is our view that the primary opportunity for improvement in the quarterly reporting process relates to reducing the volume and nature of information driven by the interim disclosure requirements of the Form 10-Q. The time and cost to prepare Form 10-Q is affected by the need to collect the required financial statement footnote and disclosure information, perform internal functional reviews, complete management control and disclosure certifications, and provide for auditor review. The benefit from much of the extensive information currently included in Form 10-Q does not outweigh the cost to collect and report it. Streamlining the volume of information required would result in immediate and significant efficiencies and result in a more focused report. Therefore, rather than pursuing new approaches to reporting, such as the Supplemental Approach, we urge the Commission and the FASB to explore the efficiencies that could be achieved by reducing the volume of interim disclosures, based on a clarified model that only requires interim disclosures if they provide material updates to annual financial statements.

Streamlining Form 10-Q interim disclosure requirements

While financial statements presented on Form 10-Q must be prepared in accordance with the SEC's interim framework as described in Article 10 of Regulation S-X, U.S. GAAP includes rules that prescribe the form and content of interim financial statements irrespective of whether there are material changes from the most recent annual report. Interestingly, FASB Concept Statement 8, Chapter 8, *Notes to the Financial Statements* includes similar concepts as Article 10 regarding materiality and significant changes[1]. However, the FASB has increasingly required extensive disclosures for both annual and interim reporting periods that exceed the expectations set forth in the SEC's interim reporting framework and in the FASB's own conceptual framework. Similarly, we observe some requirements of Regulation S-K that require more information than what is needed to comply with the SEC's interim reporting framework. The result, in many cases, is a report that includes footnotes and information prepared only for compliance purposes and that is not significant to an investor's decision making. This drives cost to preparers without providing a corresponding benefit to investors.

In practice, in the context of interim reporting, there is an expectation that preparers should apply the concept of materiality strictly to the magnitude of amounts rather than considering qualitative materiality factors or the significance of change versus the most recent annual report. This makes it challenging to conclude that any disclosure requirements are immaterial to the Form 10-Q regardless of what is allowed under Article 10. For example, there are extensive interim disclosure requirements in U.S. GAAP for areas such as fair value measurements, defined benefit pension plans, derivative instruments, AOCI, and revenue recognition, which often require significant effort to prepare. Depending on the company and/or industry, certain of these areas may be more relevant than others. Below are two examples of scenarios

[1] Article 10 of Regulation S-X allows registrants to presume that the users of interim financial statements have read or have access to the registrants' audited financial statements from the preceding fiscal year. It also states that interim disclosures should be provided for events occurring after the most recent fiscal year which have a material impact on the registrant and that disclosures should encompass significant changes over the period. Registrants are permitted to omit from interim disclosures, information that has not changed significantly in amount or in composition, thereby eliminating substantial duplication of disclosures contained in the most recent financial statements. Meanwhile, Concept Statement 8 states, the following: "Because interim-period financial statements are essentially an update of the information in the most recent annual statements, notes are intended to convey new information or information about significant changes to matters discussed in notes to the most recent annual financial statements….Interim-period financial statements are not designed to be as complete as a set of annual financial statements. Normally, relevant information that can be obtained from the most recent annual financial statements and that has not changed is not provided in interim-period financial statements."

where we believe it would be appropriate to exclude a footnote based on qualitative materiality considerations.

- The derivatives footnote may be important to investors of a financial institution but may be static and provide little value to investors of a company that only uses derivatives as an effective hedge for the same purpose each period. Regardless of the dollar amount of the hedging portfolio to the non-financial institution in this example, we believe the company should have more flexibility to apply a qualitative materiality assessment that would provide greater ability to omit the respective derivatives footnote, which in this case, is not critical to an investor's analysis of the company's results.

- A company may have a large investment portfolio that represents a significant portion of its balance sheet. However, the company's investment strategy is relatively conservative, with a steady state of normal maturities and purchases and sales that may be quantitatively material. In this scenario, although the investment portfolio balance may be quantitatively material, the changes are not qualitatively material, thus we believe the company should have the flexibility to omit portions of the investments disclosures.

In addition, we believe the Commission should reassess certain of its interim disclosure requirements, such as the Year-to-Date MD&A. While some companies may find benefit in providing this information on an interim basis, others do not, particularly when they find that their investors are not using the information. We believe issuers should have more explicit guidance to support the application of judgment in deciding whether to include year-to-date information when it is not changing meaningfully or is redundant to information included elsewhere in the Form 10-Q or provided previously.

We recommend increased clarity and leniency that provides registrants greater flexibility/judgment in determining whether to include (or omit) disclosures based on the overall mix of quantitative and qualitative materiality considerations, relative to both the current reporting period and the most recent Form 10-K.

To improve the interim financial statement footnotes and the interim reporting process overall, we believe it would be beneficial if the SEC, in conjunction with the FASB, issued guidance elaborating on the circumstances in which it would be appropriate to omit a disclosure based on quantitative and/or qualitative factors similar to what was done in SAB 99. We believe this should include greater emphasis and clarity around materiality in relation to changes from the Form 10-K. Additionally, building explicit optionality within the FASB's interim disclosure requirements (overall as well as subtopic by subtopic) based on the quantitative and qualitative materiality, could contribute significantly to reducing the cost of preparation while creating a more meaningful, streamlined report for investors.

Now that FASB's major projects (e.g., revenue recognition, leases) are largely complete, we believe this is an opportune time for the SEC, in coordination with the FASB, to evaluate this recommendation, particularly given work underway by the FASB on its Interim Reporting project and the Disclosure Improvements project addressing greater consistency between U.S. GAAP requirements and the requirements in Regulations S-X and S-K.

Reporting Frequency

We agree that quarterly reporting is a factor that contributes to a focus on short term financial results by some registrants and market participants. However, we believe that investors want information on a relatively frequent basis, which drives companies to fulfill that demand. From our perspective, unless the cadence of reporting is less than annually, some form of short-termism will continue to exist, likely with both positive and negative effects.

As noted, many CCR member companies would continue to provide quarterly earnings releases even in the absence of the Form 10-Q requirements to support market demands and competitive considerations. We also note that many foreign filers, who do not have Form 10-Q filing requirements, publish relatively comprehensive quarterly earnings releases, presumably driven by expectations of the analyst community and perceived value to investors. Additionally, we observe that even if a company does not provide forward-looking earnings guidance, analysts continue to produce short-term predictions about a company's earnings or other key metrics. In other words, marketplace expectations, rather than quarterly earnings releases or forward-looking guidance, may be the predominant source of short-termism in the reporting system.

Although we don't believe the focus of this effort should be on frequency of reporting, if investors provide feedback that quarterly reporting is not critical in all circumstances, we would support SEC efforts to pursue a more flexible reporting cadence, for instance by allowing a pilot group of companies to experiment with various reporting frequencies. We note that such an approach could potentially leverage the existing Form 8-K process, which keeps investors informed on a timely basis about significant events occurring between periodic filings and could be used to provide material updates to previously filed reports.

Conclusion

We appreciate the Commission's efforts to explore various approaches to reduce the cost and enhance the effectiveness of the current quarterly reporting process. We believe an approach that provides registrants greater flexibility to use a materiality assessment to focus on the critical changes from the prior period and to use judgement to identify the most important information to meet the needs of investors, best aligns with the core goal of the reporting process. Such an approach would create efficiencies for registrants and would result in a report that is more focused on the information that is most important to investors. We urge the Commission to work with the FASB to address the areas highlighted in this letter. We stand ready to participate in further development of this work.

Sincerely,

Mick Homan

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Chairman, Committee on Corporate Reporting
Financial Executives International

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