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March 21, 2019

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

Dear Mr. Fields:

RE: Request for Comments on Earnings Releases and Quarterly Reports File Number S7-26-18

We appreciate the opportunity to comment on the Securities and Exchange Commission (SEC) request regarding earnings releases and quarterly reports. XBRL US is a nonprofit standards organization, with a mission to improve the efficiency and quality of reporting in the U.S. by promoting the adoption of business reporting standards. XBRL US is a jurisdiction of XBRL International, the nonprofit consortium responsible for developing and maintaining the technical specification for XBRL. XBRL is a free and open data standard widely used in the United States, and around the world, for reporting by public and private companies, as well as government agencies.

We support the Commission's efforts to improve the efficiency of corporate disclosures and reduce burden on filers, while ensuring that investors have access to the appropriate level of information to make informed decisions. The Commission's request for comment centers on the usefulness of quarterly reporting, and on the comparison between the Form 10-Q and Form 8-K earnings announcement.

We believe that public companies should be required to continue filing the 10-Q periodic report to the SEC's Electronic Data Gathering and Retrieval (EDGAR) System. The quarterly frequency of reporting is beneficial to investors and other data consumers, as well as to the reporting entities themselves. The earnings announcement and the Form 10-Q are very different documents, and both have value to investors, regulators, and the public. Below is a summary of our conclusions on this issue, which are described in greater detail later in this letter:

Investors, regulators, and other financial data users benefit from the quarterly frequency of periodic 10-Q filings. The benefits of quarterly filings, to both investors and the public company making the submission, outweigh the cost of preparation and EDGAR submission:

- ❖ Quarterly data is needed by investors and other data consumers for quantitative and trend analysis.
- ❖ Other costs of being a public company, such as audit and legal fees, are significantly higher than the cost of preparing periodic filings. Eliminating quarterly filings would have minimal impact on reducing the burden. The cost of quarterly filing is not a deterrent to going public.
- ❖ More frequent reporting can result in companies getting more feedback from the capital markets and more analyst coverage; greater frequency and consistency of reporting ensures investors can make better, more informed decisions, because they have access to more current, and therefore more accurate, information.
- ❖ Less frequent reporting means less transparency into corporate actions, and greater market volatility.
- ❖ Annual or semi-annual reporting risks “data leaks” to select groups before the information is made public.

There are key differences between the earnings announcement and the Form 10-Q. The former ensures that all investors have access to potentially market-moving information as quickly as possible; the latter contain carefully vetted, consistent and comparable data for historical modeling. Both documents serve important purposes for the numerous users of financial data - investors, analysts, regulators, the media, watchdog groups. We believe the Commission should continue requiring the 10-Q, and accepting the Form 8-K as they do today. Key differences between the two documents include:

- ❖ 10-Qs, because they are prepared in XBRL format, are easier and less expensive to process than earnings releases.
- ❖ 10-Q data has undergone an audit review, which increases the confidence of investors and analysts in the reported data.
- ❖ 10-Qs are more reliable and consistent than earnings announcements. 10-Qs are required to be reported by the SEC, but earnings announcements are optional. Data reported in the 10-Q has certain required content, and is more consistent than the earnings announcement.
- ❖ The earnings announcement can include non-GAAP data, which is also considered valuable to investors.
- ❖ The earnings announcement is typically published sooner than the 10-Q. This allows public companies to narrow the gap between the time when earnings data is available at period end, to when it is publicly disclosed. This can also reduce the possibility of data leaks, and the need for internal policing, for those companies that choose to issue the earnings announcement.
- ❖ Earnings announcements are typically distributed more broadly than the 10-Q, through commercial newswire services.

Below are responses to specific questions raised by the Commission in the Request for Comment.

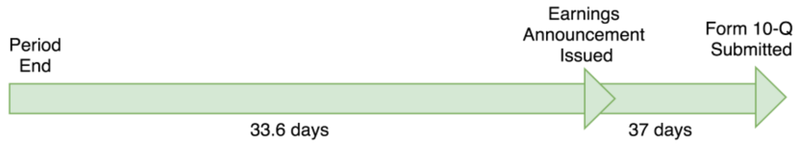
Questions

2. Do quarterly earnings releases provide benefits to investors, companies, or the marketplace separate and apart from the Form 10-Q report? If so, please describe the primary benefits. How do investors use earnings guidance to inform their investment decisions? To the extent there are benefits, do they stem largely from the content of the releases, their timing, or other reasons?

Earnings releases and quarterly reports have different features, and hence, different advantages, as noted below.

Availability: Every public company is required to file three 10-Qs and one 10-K each year. Filing the Form 8-K earnings announcement is not a requirement. Approximately 60% of public companies file an earnings announcement, according to data provided by Calcbench.

Timing: Companies that issue an 8-K earnings announcement, typically publish the 8-K prior to the submission of the 10-Q to EDGAR. The average lag time between the filing of the 8-K and the filing of the 10-Q, was 3.4 days in 2018, and 3.7 days in 2017 (data from Calcbench[1]). The diagram below shows the average timing sequence in 2018. The company submitted the earnings announcement Form 8-K, 33.6 days after the period end; and submitted the Form 10-Q, 37 days after period end.



Content: The earnings announcement typically includes non-GAAP data which has been cited by investors as a useful indicator of corporate value. The Form 10-Q contains only GAAP data, which is required to be disclosed.

Preparation: We conducted a survey among 236 SEC filers in June 2018, to better understand the earnings and Form 10-Q preparation process. 52% of the respondents to this survey said that the earnings announcement is prepared by the accounting department; 47% said the investor relations department was responsible for it. We assume that most periodic filings (10-Q) are prepared solely by the accounting department.

[1] Calcbench, How Quickly Are Firms Filing: https://www.calcbench.com/blog/post/173768255443/How-Quickly-Are-Firms-Filing-Recent-Data-Here

Audit/Review: There are no audit or review requirements over the 8-K earnings; the Form 8-K is considered to be furnished rather than filed, which imposes a lower level of liability. Interim financial statements included in Form 10-Q, conversely, must be reviewed by an auditor, and U.S. GAAP prescribes the form and content of interim financial statements. Periodic filings, including the 10-Q, must be certified by the principal executive and financial officers of the reporting company, and the Form 10-Q is filed, not furnished, which gives it a higher level of liability.

Distribution: The Form 8-K earnings is submitted to the SEC EDGAR system. It may also be distributed through a newswire service such as Business Wire or Cision (formerly PR Newswire), and if so, is disseminated to thousands of media outlets, databases, and web sites. The 10-Q is submitted to the SEC EDGAR system, and is typically pulled by data providers which extract the XBRL-formatted content, database it, and make it available to investment clients.

Format: The Form 8-K is submitted in HTML or ASCII Text; the 10-Q is posted in both HTML (or ASCII Text) and XBRL, so that it is both human-readable and machine-readable. Starting this year, the 10-Q will be filed using Inline XBRL.

Advantages: The Form 8-K earnings announcement has the advantages that, 1) it is usually available sooner, 2) it contains non-GAAP data that investors find helpful in making their assessments, and 3) it is often distributed broadly through commercial newswire services.

The Form 10-Q has the advantages that 1) the data in it has undergone an audit review, and it is filed rather than furnished, giving it a higher level of liability, and thus a higher level of confidence from the investors and analysts that use it, 2) the data is formatted in XBRL so that it can be extracted automatically, facilitating processing and reducing the cost of analysis, and 3) it is required to be submitted by all listed companies, therefore data aggregators and investors can rely on 10-Q data to provide consistent, comparable data for the entire universe of listed stocks.

3. How do companies determine the information to present in the earnings release? Is there a market standard, or are companies otherwise generally consistent in the type and amount of information they present in earnings releases? To what extent is the content of earnings releases provided in response to investor and analyst needs or demands? Are such releases satisfying those needs? How would the content of earning releases change if they were required to be filed with the Commission and become subject to applicable liability provisions?

We conducted a detailed review of seven earnings announcement Form 8-Ks, and found significant variation. The average number of reported values per announcement was 86, but the number ranged broadly, from a low of 16 to a high of 204. In reviewing the individual elements reported, there was limited overlap. 19 elements, which are listed in the table below, were used in more than 50% of the releases.

Assets	Assets Current	Cash and Cash Equivalents At Carrying Value	Earnings Per Share Basic and Diluted	General and Administrative Expense
Liabilities	Liabilities and Stockholders Equity	Liabilities Current	Net Income Loss	Net Income Loss Available To Common Stockholders Basic
Operating Expenses	Operating Income Loss	Property Plant and Equipment, Net	Research and Development Expense	Retained Earnings Accumulated Deficit
Revenues	Stockholders Equity	Weighted Average Number of Shares Outstanding Basic and Diluted	IncomeTaxExpenseBenefit	

On average, 70% of the elements used in the earnings announcements were GAAP measures, and it can be assumed that these facts would be reported in the subsequent Form 10-Q as well. Thus, 30% of content reported in the earnings announcements was non-GAAP and did not overlap with the data reported in the 10-Q.

5. <u>Are there meaningful differences between the financial information typically provided in an earnings release and the financial information required by Form 10-Q? What accounts for the differences?</u>

Content in the 8-K and 10-Q differ, as noted above, in that the 8-K contains non-GAAP measures. Analysis conducted by Calcbench[2] suggests that some data, like Net Income, can differ between the data reported in the earnings announcement (8-K), and the data reported in the Form 10-Q. One example they cite involves AmerisourceBergen and its results for fiscal 2017. When Amerisource filed its earnings release on Nov. 2, 2017, it reported net income as $414.5 million. But in its Form 10-K, filed on Nov. 21, Net Income had dropped to $364.5 million — a decrease of $50 million, or 12 percent. The cause of the difference in Net Income was the increase in expense for employee severance and litigation, by $50 million.

Revisions may be caused by a reconciliation of the non-GAAP data, or may even be a revision in data that occurs after the 8-K is issued.

6. <u>When a company issues an earnings release that includes much of the information required by Form 10-Q before the form is filed, is the Form 10-Q still useful? Why or why not? How important to investors is the confirmation or interpretation by the Form 10-Q of the information in the earnings release? If investors rely on Form 10-Q as the primary document, is the historical financial information about the quarterly period included in the earnings release useful? Why or why not? Does the fact that Form 10-Qs are filed as opposed to furnished, and include</u>

[2] Calcbench blog post: https://www.calcbench.com/blog/post/182192835328/Differences-in-Earnings-Releases-and-10-Ks

certifications, impact the extent to which investors rely on them? Are there any instances when information disclosed in earnings releases may be useful to investors for purposes of interpreting the content of Form 10-Q? If so, when and how?

As noted earlier, both documents have value to investors.

Even if the Form 10-Q contains data identical to that already published in the Form 8-K, the XBRL tagging of the 10-Q renders the embedded data machine-readable, which makes it possible to automate the extraction and databasing of the information, reducing the cost of analysis. Second, the fact that data in the 10-Q is, 1) filed rather than furnished, 2) certified, and 3) has undergone auditor review, gives data users a higher level of comfort with the reported data in a 10-Q versus the 8-K.

Non-GAAP data found in the earnings release is also important to investors, as pointed out in a CFA Institute study[3] which stated "*Our survey results establish that company-reported NGFMs [Non-GAAP Financial Measures] are useful for investors who apply them for varied reasons, including as a valuation input and as an indicator of accounting quality. We also find indications of sophisticated application of NGFMs by many investors, who make further adjustments including reversing questionable management adjustments so as to get the best view of economic reality.*"

The study goes on to point out that 63.6% of respondents (portfolio managers, buy- and sell-side analysts) to a survey stated that they always or often use Non-GAAP financial measures (NGFM).

Our conclusion then, is that different aspects of both the earnings release, and the 10-Q, have value to investors.

10, part 1. Do the XBRL requirements of Form 10-Q enhance accessibility and/or usability of quarterly information relative to what is available from earnings releases, which are not required to be structured for machine readability or processing? If so, how is that information used and by whom?

XBRL tagging converts paper-based (HTML or text) data into computer-readable information that can be automatically extracted from SEC submissions, and pulled into databases and analytical applications. XBRL tagging also requires the use of an agreed-upon collection of terms, with associated definitions and data types. The consistency of "tags" combined with the automation made possible by machine-readable data, means that XBRL-formatted data is less expensive to process, available faster, and is more consistently prepared, making it easier to compare one reporting entity to another.

[3] CFA Institute, https://www.cfainstitute.org/-/media/documents/support/advocacy/investor-uses-expectations-concerns-on-non-gaap.ashx

Organizations using XBRL data to serve investment clients today, include Bloomberg, Calcbench, idaciti, Intrinio, Morningstar, Refinitiv (formerly Thomson Reuters Financial & Risk), Seatig, and TagniFi, among others. They rely on XBRL data because it's more efficient to process than other formats.

Investors and analysts prefer structured (machine readable) data, like that provided in a Form 10-Q. The CFA Institute, in a position paper[4] from July 2018, noted: *".. the XBRL data being mandated by regulators are being used. The detailed-tagged data provided in a machine-readable format include information desired by investors and analysts... XBRL has democratized financial data. It drives transparency and improves efficiency by helping analysts and other users of financial and business information find relevant facts within a few mouse clicks."*

10, part 2. <u>Would similar benefits be achieved if companies structured earnings releases using XBRL? Why or why not?</u>

XBRL tagging of the earnings announcement would provide similar benefits to data users, and in fact, the investment community has expressed interest in the tagging of earnings announcements. A CFA Institute blog post points out "*The most important single improvement would be to require that earnings releases also be filed as structured filings. Requiring tagged data associated with earnings releases is an area that needs urgent attention if structured data are to provide investors with useful and timely information..*"[5]

10, part 3. <u>How would the costs of structuring earnings releases in XBRL compare to the costs of complying with the XBRL requirements for Form 10-Q?</u>

The earnings announcement is a shorter document with fewer reported values than the 10-Q, however, XBRL tagging of the earnings announcement would introduce several challenges for public companies, that the Commission should take into consideration:

- The US GAAP Financial Reporting Taxonomy contains the appropriate tags to handle most situations reported in the form 10-Q, thus minimizing the use of extensions. Many elements to tag non-GAAP data in the corporate earnings release, however, are not contained in the US GAAP Taxonomy. As noted earlier, approximately 30% of the items in the earnings announcements we analyzed, were non-GAAP items. Many of these were industry-specific, such as "tons of coal sold", "cost of revenues, automotive sales", "solar energy systems, leased and to be leased, net" or "funds from operations". The unique nature of these reported facts would require companies to create extension elements, or would require the addition of new elements in the US GAAP Financial Reporting Taxonomy. In addition to industry-specific elements, companies are able to include information in the earnings announcements that may be unique to the company, but that

[4] CFA Institute "Data and Technology", https://www.cfainstitute.org/en/advocacy/policy-positions/data-and-technology-how-information-is-consumed

[5] CFA Institute blog, May 26, 2017: https://blogs.cfainstitute.org/marketintegrity/2017/05/26/financial-reporting-and-analysis-today-using-xbrl-to-make-the-process-faster-and-easier/

they deem to be useful to investors. These unique facts are also likely not covered by elements in the US GAAP Taxonomy.

- In the survey we conducted among filers, 52% of respondents said that the accounting department is responsible for preparing the earnings announcement, therefore 48% of companies have a different department, such as investors relations, prepare the earnings announcement. If the earnings announcement was required to be tagged, additional training would be required by the staff handling the preparation of the earnings announcement; or the SEC reporting team would need to take on the tagging of the earnings announcement in addition to the quarterly filing.
- XBRL tagging of the earnings announcement may slow the speed of delivery which is one of the key characteristics of the earnings announcement.

11. What is the impact of the auditor review requirement of quarterly financial information on investors, companies, and other market participants? Do investors value the independent auditor review of quarterly financial information? Why or why not? Does the auditor review requirement have a relationship to the cost of capital for companies? If so, how?

Investors have greater confidence in data that has been audited. In a September 2018 letter to the PCAOB, the Council of Institutional Investors (CII) reiterated their policy on auditors, stating "*Auditors . . . , and other financial "gatekeepers" play a vital role in ensuring the integrity and stability of the capital markets. They provide investors with timely, critical information they need, but often cannot verify, to make informed investment decisions. With vast access to management and material non-public information, financial gatekeepers have an inordinate impact on public confidence in the markets. They also exert great influence over the ability of corporations to raise capital and the investment options of many institutional investors*."[6]

The CFA Institute also noted in their July 2018 position paper: "*Regulators require filers to submit their financial statements in both paper-based and digital formats, but no requirement exists to audit or provide any level of assurance on the digital format.This lack of accountability is not in the interest of investors."*

12. What are the cost burdens associated with the preparation of a Form 10-Q? Are these cost burdens borne solely from the preparation of the Form 10-Q? How do the costs of preparation vary among different sections of the report? Would there be costs to a company to the extent it does not file a Form 10-Q? Would additional cost burdens be associated with the preparation of a registration statement in which a company would otherwise incorporate by reference a previously filed Form 10-Q?

[6] Council of Institutional Investors, letter to PCAOB, September 6, 2018: https://www.cii.org/files/issues_and_advocacy/correspondence/2018/September%206,%202018%20PCAOB%20Strategic%20Plan.pdf

The cost of going public, and the ongoing costs of being public, can be significant, and is comprised of a range of fees for different services. Initially *going public* requires expenditures on underwriting, accounting, legal, and printing, in addition to listing and registration fees. *Being* public requires ongoing costs for incremental internal staffing costs, professional fees for legal and accounting advice, and incremental auditing fees. A study[7] conducted by PwC indicated that the annual cost of audit fees alone for public companies ranged from $336,000 for small companies, to as high as $14,076,000 for companies with revenue greater than $10 billion.

The XBRL tagging costs for smaller reporting companies average $5,500 per year, based on a study[8] conducted jointly by the AICPA and XBRL US. The study also found that the cost of the XBRL tagging of a periodic filing has declined 45% for small companies from 2014 to 2017. The survey showed that 68.6% of the companies paid $5,500 or less on an annual basis for fully outsourced creation and filing solutions for their XBRL filings. $5,500 is a fraction of the cost of audit fees for smaller companies.

If the Commission is seeking ways to reduce the burden on public companies, eliminating quarterly filing will provide minimal relief, particularly when compared to other "being public" costs.

20. <u>Should information in an earnings release that is submitted on Form 8-K be allowed to satisfy the Form 10-Q requirements? Why or why not, and if so to what extent? What are the potential benefits and drawbacks to investors, companies, and other market participants of the Supplemental Approach or other suggested approach?</u>

Given the significant differences between the two documents, which were outlined earlier in this letter, it would be difficult to combine them into a single filing, therefore we do not agree with the Supplemental Approach.

26. <u>How should the Supplemental Approach or other suggested approach take into consideration the XBRL requirements of Form 10-Q? If information currently required to be structured using the XBRL format on Form 10-Q were instead only disclosed in an unstructured format on Form 8-K, would this adversely affect investors or other market participants?</u>

If the Supplemental Approach was adopted and the Form 8-K was submitted in an unstructured format, this would adversely affect investors and other users of corporate data. As noted earlier, investors prefer structured (XBRL) data because of the greater ease in processing the data which makes it less costly, more timely, and more functional.

30. <u>What are the benefits and costs to investors, companies, and other market participants associated with the current reporting frequency model, which requires from domestic issuers quarterly reports on Form 10-Q, annual reports on Form 10-K, and current reports on Form 8-K?</u>

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[7] Pwc, "Considering an IPO to fuel your company's future?", 2017: https://www.pwc.com/us/en/deals/publications/assets/cost-of-an-ipo.pdf

[8] AICPA XBRL US Study: https://www.aicpa.org/press/pressreleases/2018/xbrl-costs-have-declined-according-to-aicpa-study.html

Does the frequency of reporting lead managers to focus on short-term results to the detriment of long-term performance? Why or why not? If so, does this negatively affect investors? If so, how? Would less frequent reporting change management decision-making or otherwise positively affect investors? Or does the practice of issuing earnings guidance, including the frequency with which companies issue earnings guidance, lead managers to focus on short-term results to the detriment of long-term performance? Why or why not? Would more frequent reporting change management decision-making?

The current practice of quarterly reporting is preferable to annual or semi-annual because:

- It reduces the possibility of non-public data about the financial results of the company, inadvertently "leaking" to a small set of investors. The current practice whereby companies publish earnings announcements as soon as possible after period close, is evidence that this is a concern among public companies. A move to reduced frequency of reporting would make this more problematic.
- The cost and burden of preparing and submitting the three 10-Qs is low, relative to the expenditures on other aspects of being public such as accounting and legal fees. In addition, one would assume that companies would need to prepare this data internally for management, regardless of disclosure requirements, to help management evaluate programs and to set strategy for the company. If the data is already prepared, readying it and submitting it for public disclosure should not be a significant added burden.
- Investors, analysts and other data consumers need quarterly data for trend, and other forms of time series analysis.
- Analysts are able to update their models, and publish explanatory reports more frequently, if data is reported by public companies more frequently. Better information flow means investors make decisions based on more current, accurate information. Lack of consistent, frequent data could have a bigger impact on small investors because large investors have the resources to conduct more sophisticated techniques and may have greater access to corporate management. The UK experience, of initiating, and then discontinuing quarterly reporting, suggests that analysts tend to provide more coverage when there is more frequent information flow. A study conducted in March 2017[9] points out "*.. the initiation of mandatory quarterly reporting in 2008, increased analyst coverage for U.K. firms as a whole and is associated with lower analyst forecast error for switching firms. That is, equity analysts' ability to forecast future earnings appears to have improved after mandatory quarterly reporting.* "
- Providing more frequent data to the market will result in public companies getting more feedback from the market. This can be useful to identify potential concerns from investors and other data users.

31. Should we move to a semi-annual reporting model for all or certain categories of reporting companies? Why or why not, and to which categories of reporting companies (e.g., smaller reporting companies, non-accelerated filers, emerging growth companies)? Are there other

[9] "Consequences of Mandatory Quarterly Reporting: The UK Experience": https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2817120

categories of reporting companies, such as by industry, that we should consider? For example, are there any unique considerations we should give to certain commodity trusts, business development companies, and other collective investment vehicles? Would any other frequency of reporting model be more appropriate for these or other types of companies?

Investors, regulators, analysts and other users of corporate information need data from 100% of reporting companies, consistently reported across industry sectors. Given a choice of investment companies, analysts and investors will choose those that provide reliable, consistent, more frequently reported data. Management should not be allowed to opt out of quarterly reporting because management may not be aware of the importance to investors of more consistent data.

32. What would the costs and benefits be to investors, companies, and other market participants of a semi-annual reporting model for all or certain categories of reporting companies? Are there market practices in place, for example contractually mandated reports to lenders and indenture trustees, that rely on the current regulatory reporting regime? If so, how would these market practices be affected by changes to that regime and what are the downstream effects?

Quantitative analysis, which relies on time series data and analyzes trends, would be negatively affected by a move to semi-annual reporting.

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? For example, should we allow a company conducting an initial public offering to announce its approach to periodic reporting, such as semi-annual periodic reporting, during registration and implement the elected approach going forward? Should a company be permitted to change its approach to frequency of reporting once it selects a reporting frequency? Why or why not? If it is permitted to change the frequency of reporting after it has established an approach, how often should the company be permitted to change its reporting frequency?

Non-standardized reporting practices, such as the ability to switch from quarterly to semi-annual, or allowing companies to choose their frequency of reporting, would disrupt the ability of investors and other users to obtain consistent data and conduct good quality analysis.

The role of the Commission is to protect the investor. Less frequent disclosures, and inconsistent disclosures, would have a negative impact on all investors but likely a bigger negative impact on small investors, who have fewer resources and less access to company management than large investors.

42. Are existing U.S. GAAP taxonomies used for XBRL reporting appropriate for a flexible reporting frequency model?

Although we disagree with a flexible reporting approach, the same US GAAP Taxonomy could be used for this approach.

Conclusion

In summary, we believe the Commission should continue the current practice of requiring quarterly reporting by public companies. We do not believe that the Commission should adopt the Supplement Approach of combining the 10-Q and the earnings announcement as these documents provide unique benefits that would be difficult to combine into one submission. And we do not believe that companies should be allowed to select their disclosure frequency practice.

Please contact us if you have questions about our feedback or would like to discuss this further. I can be contacted at [redacted] or email [redacted].

Sincerely,

Campbell Pryde
President and CEO