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March 28, 2019

Vanessa Countryman
Acting Director, Office of the Secretary
U. S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

***Re:*** **Request for Comment on Earnings Releases and Quarterly Reports**
**Release Nos. 33-10588; 34-84842**
**File Number S7-26-18**

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (SEC's) *Request for Comment on Earnings Releases and Quarterly Reports* ("Quarterly Reporting Request for Comment").

CFA Institute,[1] in consultation with its Corporate Disclosure Policy Council ("CDPC")[2] is providing comments on the Quarterly Reporting Request for Comment consistent with our objective of promoting fair and transparent global capital markets and advocating for investor protections. An integral part of our efforts toward meeting those goals is ensuring that corporate financial reporting and disclosures – and the related audits – provided to investors and other end users are timely and of high quality.

***Upcoming CFA Institute Publication on Quarterly Reporting***

For some time now, there has been a debate over whether reducing the periodic reporting requirements for companies from quarterly to semiannually could save time and money, as well as dissuade short-termism, as companies would no longer focus on meeting analysts' expectations on a quarterly basis at the expense of longer-term thinking. This issue has been debated in many regions of the world. For this reason, CFA Institute used the SEC's Quarterly

1 With offices in Charlottesville, New York, Washington D.C., Hong Kong, London, Brussels, Mumbai, Beijing and Abu Dhabi, CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, portfolio managers, investment advisors, and other investment professionals in 151 countries, of whom more than 162,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also include 151 member societies in 163 countries and territories.

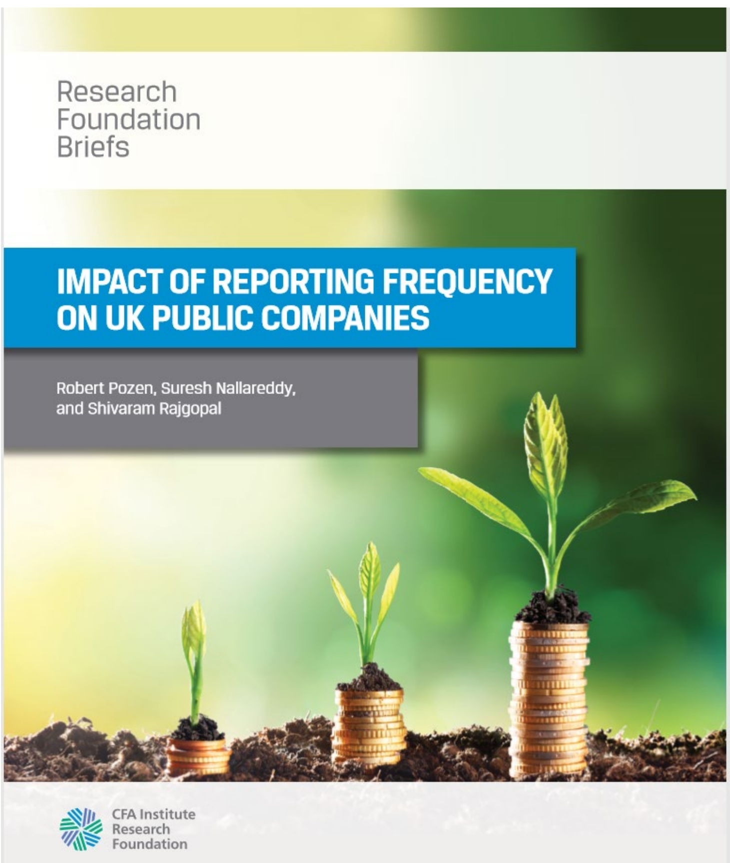
2 The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners' perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

Reporting Request for Comment as an opportunity to conduct a survey of its global membership on the topic. We surveyed our analysts and portfolio managers globally because our members invest globally, including in US companies, and similar questions regarding quarterly reporting are being considered by securities regulators in various jurisdictions. We also hosted a roundtable discussion addressing these issues in further detail. The survey queries investors views on quarterly reports vs. earnings release, the earnings release as the core disclosure document (i.e. the supplemental approach), the implications of reporting frequency, and earnings guidance. We also included several questions on environmental, social and governance information given our opportunity to reach out to our global membership. The results of the member survey and the roundtable discussion will be published shortly and we will provide the results to the SEC for their consideration.

***Previously Expressed Positions***

While our survey corresponds to the issues raised in the SEC's Quarterly Reporting Request for Comment and will address specific areas of interest in the consultation, CFA Institute has previously addressed the key themes with other research and membership surveys.

*Frequency of Reporting & Short-Termism*




To address the question of reporting and short-termism, the CFA Institute Research Foundation conducted research to assess the actual impact of the frequency of company reporting on UK public companies. The report, *The Impact of Reporting Frequency on UK Public Companies*, authored by Robert Pozen[3] et al. was published in March 2017 and reports on the effects on UK corporate investments and capital markets of moving to required quarterly reporting in 2007 and then dropping this requirement in 2014.

Most importantly, the research found that the initiation of required quarterly reporting in 2007 did not change the time horizon that UK public company management considers when making long-term investment decisions related to the businesses they operate. The study measured this impact by examining, before and after these changes in reporting requirements, the

[3] Robert Pozen led the SEC's Advisory Committee on Improvement in Financial Reporting that issued its recommendation in August 2008.

companies' capital expenditures; spending on research and development; and spending on property, plant, and equipment.

By contrast, the initiation of mandatory quarterly reporting in 2007 was associated with significant changes in other areas. An increasing number of companies published more qualitative than quantitative quarterly reports and gave managerial guidance about future company earnings or sales. At the same time, there was an increase in analyst coverage of public companies and an improvement in the accuracy of analyst forecasts of company earnings.

When quarterly reporting was no longer required of UK companies in 2014, less than 10% stopped issuing quarterly reports (as of the end of 2015). Again, there was no statistically significant difference between the levels of corporate investment of the UK companies that stopped quarterly reporting and those that continued quarterly reporting. However, there was a general decline in the analyst coverage of stoppers and less of such decline for companies continuing to report quarterly.

CFA Institute has long contended that when companies focus on long-term strategy, they are looking at a time horizon of three to five years or longer, not six months. Accordingly, extending the reporting period from three to six months has little impact. We believe that a better approach to deterring short-termism would be to focus on companies' incentive structures. Companies interested in encouraging a long-term view should consider changing the performance periods in their incentive plans from three-year to five-year performance periods.[4]

*Quarterly Guidance vs. Quarterly Reporting*

In June 2018, Investor Warren Buffett and JPMorgan CEO Jamie Dimon wrote a WSJ Opinion Piece, *Short-Termism is Harming the Economy,* urging companies to move away from quarterly *guidance,* not quarterly reporting. Their contention was that it is not quarterly *reporting* that creates "an unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability," it's quarterly *guidance*. They state:

*Our views on quarterly earnings forecasts should not be misconstrued as opposition to quarterly and annual reporting. Transparency about financial and operating results is an essential aspect of U.S. public markets, and we support being open with shareholders about actual financial and operational metrics. U.S. public companies will continue to provide annual and quarterly reporting that offers a retrospective look at actual performance so that the public, including shareholders and other stakeholders, can reliably assess real progress.*

[4] "Would a shift to semiannual reporting really affect short-termism?" by Cydney Posner on September 10, 2018, Cooley PubCo.

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Setting the global standard for investment professionals

**Short-Termism Survey**

**Practices and Preferences of Investment Professionals**

**Earnings & Other Guidance, Communications & Incentives**

**28 May 2008**

***Prepared by:***

**CFA Institute Centre for Financial Market Integrity**

CFA INSTITUTE Centre for Financial Market Integrity

In 2008 CFA Institute published, *Short-Termism Survey: Practices and Preferences of Investment Professionals*. The publication was based upon a CFA Institute global member survey, where we asked CFA Institute members, who as investment professionals use financial statements and guidance, what measurements they use, which they prefer, and what type of guidance practice they see as best practice for the companies they analyze.

Because companies frequently indicate that: a) quarterly earnings expectations often make them feel excessive pressure to hit these numbers, or suffer consequences such as a decreased stock price, excess volatility, and possibly the loss of analyst coverage; and b) these quarterly expectations do not consider the long-term prospects of their companies we included in our 2008 survey a question on the use and usefulness of quarterly versus annual earnings guidance.

In the 2008 survey, we asked CFA Institute members whether they favored quarterly or yearly earnings guidance. Investors respondent that they had preference for annual (53%) estimates over quarterly (42%) estimates. The survey also found that CFA Institute members do use quarterly earnings estimates, but they use yearly estimates more often, and prefer broader measurements of corporate performance rather than quarterly earnings hits or misses.

Survey respondents approve of the use of yearly earnings guidance at a higher rate than they approve of the use of quarterly earnings guidance. When asked whether it is a best practice for companies to provide quarterly earnings guidance, 45 percent of participants agreed or strongly agreed that it is. When the same question was asked concerning yearly earnings guidance, 60 percent agreed or strongly agreed.

When asked if they agree that it is a best practice for companies to provide financial guidance (guidance on all financial measures other than earnings) on a quarterly basis, just over half of all respondents agreed or strongly agreed. When asked whether it is a best practice for companies to provide financial guidance on a yearly basis, the response was stronger. Nearly seventy percent agreed or strongly agreed.

Accordingly, the issue with short-termism doesn't seem to be quarterly reporting or guidance per se but the need for longer-term guidance or insight into the value generating aspects of the business. As such, the question of quarterly reporting or guidance (quarterly or annual) really may be one of simply more effective and integrated communication regarding long-term strategy and value creation. Investors passionately debate the merits and potential negative consequences of guidance. We will discuss this more in our upcoming white paper. Irrespective of the periodicity of or support for guidance, it is clear investors want the SEC to focus companies on the communication of long-term growth prospects over reducing the periodicity of the reporting of quarterly results.

***Overview of Position***

CFA Institute's long-held position is that fully functioning capital markets rely on complete, timely, and accurate information. The provision of such information through a consistent reporting system raises investor confidence, which ultimately strengthens the capital markets.

We believe all companies with any type of securities listed on regulated markets should have to publish financial information quarterly. Timely and accurate financial information is the lifeblood of financial markets. Quarterly reporting of financial information creates a more level playing field for access to financial information between insiders and outside investors and shareowners, and ultimately promotes greater investor confidence and improved capital allocation. For that reason, CFA Institute does not agree with moving to semi-annual reporting.

Sacrificing transparency could lead to other problems such as putting investors at more of an information disadvantage, information asymmetry increasing the risk of insider trading, and allowing stock prices to move away from fundamentals. Furthermore, quarterly reports not only inform investors of earnings, they also provide updates of risks.

In a world where new technologies are changing the use, creation and timeliness of data, it seems antithetical for the SEC to consider slowing down the transmission of information to investors. Such as change would harm rather than help investors in a multitude of ways. Further, it would advance the proliferation of alternative data sources being used by sophisticated investors to estimate company revenues and costs in order to anticipate company profits and take investment positions in advance of formal earnings releases. We think the SEC would be better served in considering how technology can be better deployed to enhance the quality, timeliness and cost effectiveness of company reporting rather than simply reducing the reporting.

We are not supportive of the other proposals in the SEC's Quarterly Reporting Request for Comment including:

1. Allowing companies that issue earnings releases the option of using the earnings release to satisfy the core financial disclosures of the quarterly report, and
2. Considering whether SEC rules should provide reporting companies, or certain classes of reporting companies, with flexibility as to the frequency of their periodic reporting.

Our view is that these other proposals would further reduce the effectiveness of reporting by reducing comparability and making it more difficult for investors to locate information. Further, investors may have less information reviewed by auditors and it may be challenging for them to discern what information has been reviewed by auditors and what has not. The ability of earnings releases to serve as the primary document has the potential to be confusing to investors at best but also could be potentially misleading.

The release of our report highlighting our global member survey in the next month will further illuminate analysts and investors perspectives on the detailed queries in the SEC's Quarterly Reporting Request for Comment. We will submit upon completion of our analysis.

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If you or your staff have questions or seek further elaboration of our views, please contact Mohini Singh by phone at [redacted] or by email at [redacted]. or contact Sandy Peters by phone at +[redacted] or by email at [redacted].

Sincerely,

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|---|---|
| */s/ Kurt N. Schacht* | */s/ Sandra J. Peters* |
| Kurt N. Schacht, CFA<br>Managing Director, Advocacy Division<br>CFA Institute | Sandra J. Peters, CPA, CFA<br>Head, Global Financial Reporting Policy Advocacy<br>CFA Institute |

cc: Corporate Disclosure Policy Council