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May 6, 2019

Ms. Vanessa Countryman
Acting 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 No. 33-10588; 34-84842; File No. S7-26-18)

Dear Ms. Countryman:

Tapestry Networks is pleased to respond to the Securities and Exchange Commission's Request for Comment (RFC) on earnings releases and quarterly reports. Since 2003 our firm has convened meetings that foster dialogue between directors, regulators, and top executives. Encouraged by several directors of large companies, we undertook to collect the views of a good number of directors, in order to provide the SEC with independent directors' perspectives on some of the issues raised in the RFC. The process we undertook is detailed in the Appendix to this letter, "About the Research".

What follows is a synthesis of the views of many of the directors. We think it unlikely that any single director would agree with all of the perspectives we have set out here, and we have sought to highlight disagreements with the overall view outlined here. Nonetheless, we heard a strong degree of consensus on the questions we put to the directors.

We focused on three broad questions:

1. Should the SEC restrict or otherwise discourage the provision of forward-looking information (earnings guidance)?
2. Should the SEC allow for less frequent reporting – either semi-annual, as in many European jurisdictions, or on a flexible basis?
3. How can the SEC ease the burden of reporting, without adversely affecting the information available to investors?

Overview

In a word, the directors' views were conservative: most did not see a case for major, structural changes either to earnings guidance or to the frequency of quarterly reporting. For both guidance and reporting, the majority of directors told us that:

- Actions solely on the part of the SEC would not be sufficient to lead companies away from their current practices; many of the pressures that firms felt to report quarterly and provide frequent earnings guidance came from institutional investors and analysts. Thus, SEC actions on quarterly reporting would, on their own, be unlikely to reduce short-termism.
- Shifting to semi-annual reporting, or abandoning earnings guidance might reduce some costs, but would have other unpleasant consequences and costs.
- Large companies and their boards have, by and large, adapted to the administrative costs and burdens of quarterly financial reporting, for example by implementing comprehensive enterprise resource planning systems. The financial information required for Form 10-Q reports is today being assembled for internal purposes; reducing reporting frequency would, for many firms, not be a material source of operating cost savings. But non-financial disclosures in 10-Q reports represented considerable work for directors, many of whom raised questions about the value that these disclosures offered investors.

Many directors felt that the SEC would benefit from continued exposure to the work of directors of large firms; many, but by no means all, expressed strong concerns that new regulations, especially regarding earnings guidance, could lead to a 'one size fits all' regime and a loss of adaptability for companies.

Providing earnings guidance

A large number of directors insisted on the importance of providing earnings guidance, primarily because of concerns that, without it, analysts would draw unwarranted conclusions about company performance, leading to excessive stock price volatility. In some cases, the directors felt that outside analysts, no matter how skilled, would draw incorrect conclusions because they lacked information; in others, directors thought that analysts would apply dubious methods for estimating operational performance. *"You already have people counting cars in your parking lots,"* said one director; and others recounted similar stories.

Such errors could lead to depressed stock prices or – and this worried directors at least as much – overly optimistic estimates of company performance and thus inflated share prices. In both cases, information that later reached markets would result in large price swings. *"I've always felt that the more information you can give, the more you can reduce information risk in your disclosures, your overall cost of capital should be lower. To the extent you take information away from buyers and sellers, that will affect it. I hope we don't go in that direction."*

Once an individual analyst had drawn incorrect conclusions, many directors felt unable to correct the mistake, given the risk of violating fair disclosure regulations. By providing guidance to all participants, a company could reduce price volatility and remain firmly compliant with SEC regulations.

The time interval in which companies offered guidance varied considerably. Some provided it quarterly; the majority provided annual guidance, often updated in the course of a given year. A few companies did not provide any guidance. Some directors felt that it would be best if firms stopped providing guidance altogether but insisted that this would require change not only by other issuers, but also on the part of institutional investors and analysts. Several commented that, though they had been opposed to providing any guidance, they had changed their views, given analysts' inability to model factors such as tax rates or cash flow.

One director felt that the SEC could act: *"We've created an industry of analysts guessing what earnings will be. So, if the SEC said: no more forward guidance, we might do away with some of this false work."* Another felt that regulators could help improve consistency and clarity within the system: *"I would love to see more regulation and consistency around guidance. We often struggle with that. Management seems to want to give more guidance because they're pressured by analysts; some companies give guidance, some don't. So I would like to see really clear guidelines and definitions."*

But the majority of directors communicated concerns about the SEC's ability to regulate the provision of earnings guidance, strongly preferring to let guidance be delivered on a flexible basis, *"driven by the market, not by regulation."* Directors worried that a quest for uniform guidance would reduce agility, and lead to a system poorly suited for many industries.

Directors' views on quarterly reporting

Most directors in our discussions believed that quarterly reporting remained useful to investors, and that the financial disclosures in quarterly reports were not particularly difficult for companies to produce. Reporting at longer intervals, like reducing or eliminating earnings guidance, could lead to erroneous analyst conclusions that would have to be corrected subsequently. In any event, directors noted that lengthening the reporting interval would not remove the need for communication: *"Material events,"* said one, *"will still have to be disclosed immediately"* – whatever the frequency of regular releases.

Some directors felt that changing from quarterly to semi-annual earnings releases would help companies adopt a longer-term orientation, but most did not. As one put it, *"Nobody would disagree that we have a problem of short-term thinking. But it is hard to argue that the solution is less information and less transparency to the market."* In Europe, according to some directors, financial reporting is less frequent and less rigorous than in the United States, but, in their view, this is balanced by stronger overall analysis of enterprise risk. In general, directors who had experienced both models – for example, serving on the board of a European company – expected that competitive pressures would lead to more rather than less frequent earnings releases.

Several directors noted that the external auditor's review (but not audit) of quarterly earnings information, helped ensure that audit issues such as differing views on asset impairment or revenue recognition would be surfaced and addressed early, reducing the likelihood of problems at year end. *"There is value in trueing up everything,"* said a director.

Potential SEC actions to simplify reporting

Many directors told us that reporting quarterly financial information in earnings releases and Form 10-Q submissions was not operationally difficult for their companies. Some indicated that they would prefer to disclose earnings only once (e.g. in the earnings release) and then reference that disclosure in the 10-Q.

But far more expressed concerns about what they view as a ballooning level of detail and repetition, especially in qualitative and non-financial material in quarterly reports. As a result, SEC filings had become long, tedious to prepare and hard for people to understand. *"We have a 250 page 10-Q,"* said one director. *"There's going to have to be a tipping point because the way we're doing it now is unsustainable,"* added another. Nonetheless, most felt that the appetite for disclosures was unlikely to abate in the near term.

Directors voiced a number of concerns about the readability of 10-Q reports. One called for structural changes to 10-K and 10-Q reports that would allow boards to focus on the most material issues in their disclosures: *"Ks and Qs are 100s of pages. You spend a lot of time wordsmithing. I think that simplification and grouping according to materiality would be helpful."* Other directors had similar suggestions:

> *"Drop 90% of the footnotes."*
>
> *"I see no need for an in-depth MD&A."*
>
> *"Saying the same thing in several different places is a problem."*

One director suggested that the SEC could impose page limits in order to force companies to prioritize the most important disclosures. Others said that the SEC should engage directly with investor executives, including buy-side and sell-side analysts, to find out where investors obtain the information they value most and to streamline areas that may no longer serve their initial purposes. A director commented, *"I suspect investors find that the 10-Q is a document that has slipped into the past. It's not as relevant as it used to be."*

Particular concerns about risk factor disclosures

Several directors conveyed strong views about risk factor disclosures. *"Risk factors are out of control,"* said one, adding, *"You should basically say: 'you could lose your money.'"* Another director commented *"I wanted a coherent, logical structure to risk factors – you should be able to conceptualize such a list – but the SEC said no, we just want every risk covered somewhere."*

In general, directors saw risk factor disclosures as defensive moves rather than means of engaging with investors. Extensive disclosures, they said, were ways of avoiding after-the-fact problems. *"The press release is the positive thing and the Q is defense, that's just the way it's always been,"* commented one. *"The disclosures we put out are like* War and Peace*. If you forget anything, you're vulnerable."*

Potential company actions to simplify reporting

A few directors described moves that their companies had made to reduce the length and complexity of quarterly reports. For example, some had preemptively engaged with the SEC to discuss removing redundant information. *"We did that,"* said one director, *"and cut 20 pages from our filings."*

Several directors described practices, already allowed by SEC rules, that had resulted either in shorter disclosures or in an easier disclosure process. Discussing a complex accounting decision with the SEC and obtaining a "no objection" position, one said, was better than issuing a report and having it subsequently questioned. Another director described a shift to annual enumeration of risk factors, with quarterly updates: *We only put changes to risk factors in the 10-Q; if there are no significant changes, we point them back to the 10-K."*

The future of public companies

We were struck that many directors saw complex disclosure requirements, high compliance costs, and pressure from analysts and institutional investors as threats to the formation and continuation of public companies with widely distributed shareholder bases. *"The regulators have a false impression of what it costs to be a public company,"* said one.

In this regard, despite the directors' general reluctance to change guidance and reporting practices and their concerns about regulators' abilities to improve the system on their own, the directors and the SEC share a mission of encouraging retail investment in America's companies.

* * *

We would be happy to respond to any queries or requests for further information. Please do not hesitate to be in contact if we can be helpful.

Yours sincerely,

Jonathan Day

Jonathan Day
Vice Chairman and Chief Executive
Tapestry Networks, Inc.

APPENDIX – ABOUT THE RESEARCH

Over a ten-week period, in eight network meetings and in telephone interviews leading up to each meeting, Tapestry Networks staff discussed the SEC's Request for Comment on Earnings Releases and Quarterly Reports, Release No. 33-10588; 34-84842; File No. S7-26-18, with the audit chairs, lead directors and compensation committee chairs of large public companies.

A total of 82 directors participated in the meetings; in general, discussion of the RFC accounted for 30 to 45 minutes of each meeting, and some 5 to 10 minutes of each call.

The following directors participated in these meetings, which included, among many other topics, discussion of the SEC's Request for Comment. The majority of directors on this list elected to engage in the discussion of the Request for Comment, but some explicitly chose not to do so. All that can be inferred from a director's name being listed here is that she or he participated in a meeting as a whole.

All of the discussions were held under a modified form of the Chatham House Rule, which allows for quotation but not for attribution of any comment or perspective to an individual director or a company. Directors in meetings speak personally, rather than as representatives of their company or their board. Most of the meetings took place under the sponsorship of EY, the global professional services firm; EY has reviewed this summary but has not exercised editorial control over it.

Edward Adair	Audit Committee Chair	Rayonier Advanced Materials
Virginia Addicott	Audit Committee Chair	CDW
Bert Alfonso	Audit Committee Chair	Eastman Chemical Company
Ron Allen	Audit Committee Chair	The Coca-Cola Company
Skip Battle	Audit Committee Chair	Expedia
Alan Bennett	Audit Committee Chair	Halliburton
Carl Berquist	Audit Committee Chair	Beacon Roofing Supply
Maureen Breakiron-Evans	Audit Committee Chair	Cognizant
Judy Bruner	Audit Committee Chair	Seagate Technology; Varian Medical Systems
Sandy Cloud	Lead Trustee	Eversource Energy
Kathleen Cooper	Fomer Audit Committee Chair	Williams Companies
John Davidson	Audit Committee Chair	Allergan; Legg Mason
Erroll Davis	Compensation Committee Chair	Union Pacific
Gayla Delly	Audit Committee Chair	Flowserve
Henry DeNero	Audit Committee Chair	Western Digital
Sam Di Piazza	Audit Committee Chair	AT&T
Denise Dickins	Audit Committee Chair	Watsco
Barbara Duganier	Audit Committee Chair	Buckeye Partners; MRC Global
Bill Easter	Audit Committee Chair	Delta Air Lines
Jeff Epstein	Audit Committee Chair	Twilio
Curt Espeland	Lead Director	Lincoln Electric
Juan Figuereo	Audit Committee Chair	PVH
Jim Fogarty	Non-Executive Chair	Assertio Therapeutics
Sheila Fraser	Audit Committee Chair	ManuLife Financial
Earl Fry	Audit Committee Chair	Hawaiian Holdings
John Gallagher	Audit Committee Chair	Kraton Corporation
Art Garcia	Audit Committee Chair	ABM Industries
Mark Garrett	Audit Committee Chair	Cisco; Pure Storage
Colleen Goggins	Board Member	TD Bank Group
Anne Hackett	Lead Director	Capital One

Marianne Harris	Compensation Committee Chair	Sun Life Financial
Jeri Hilleman	Audit Committee Chair	NovoCure
Charles Holley	Audit Committee Chair	Amgen
James Hunt	Audit Committee Chair	Brown & Brown
Bala Iyer	Audit Committee Chair	Power Intergrations; Skyworks Solutions
Sue James	Audit Committee Chair	Coherent
Cindie Jamison	Audit Committee Chair	Darden Restaurants
Johnny Johns	Lead Director	Genuine Parts Company
Doug Johnson	Lead Director	Aflac
Doug Johnson	Audit Committee Chair	Aflac
Christie Kelly	Audit Committee Chair	Park Hotels & Resorts
Bill Kerr	Compensation Committee Chair	IPG
Marie Knowles	Audit Committee Chair	McKesson Corporation
Dagmar Kollmann	Audit Committee Chair	Deutsche Telekom
Ellen Kullman	Audit Committee Chair	Dell Technologies
Ed Lamb	Audit Committee Chair	Real Industry
Lou Lavigne	Audit Committee Chair	DocuSign; Zynga
Helman le Pas de Secheval	Audit Committee Chair	Bouyges
Steve Leer	Lead Director / Non-Exec. Chair	Norfolk Southern (Lead Director); USG (Chair)
Cathy Lego	Audit Committee Member	Cypress Semiconductor
Linda Fayne Levinson	Lead Director	Jacobs Engineering Group
Simon Lorne	Audit Committee Chair	Teledyne Technologies
Rich Macchia	Audit Committee Chair	Fleetcor
Karen Maidment	Compensation Committee Chair	TD Bank Group
Gil Marmol	Audit Committee Chair	Foot Locker
Gracia Martore	Audit Committee Chair	WestRock Company
Mary Pat McCarthy	Audit Committee Chair	Palo Alto Networks
Rick Mills	Audit Committee Chair	Commercial Metals Company
John Mulligan	Audit Committee Chair	McDonald's
Bob Murley	Non-Executive Chair	Stericycle
Steve Orlando	Audit Committee Chair	Molina Healthcare
Jason Papastavrou	Audit Committee Chair	United Rentals
Barry Pearl	Audit Committee Chair	Magellan Midstream Partners
Peter Regauss	Audit Committee Chair	Williams Companies
Frank Risch	Audit Committee Chair	Pioneer Natural Resources
Joyce Roché	Compensation Committee Chair	AT&T
Virginia Ruesterholz	Compensation Committee Chair	The Hartford; Frontier Communications
Vicki Sato	Lead Director	Bristol-Myers Squibb
Tom Schoewe	Audit Committee Chair	General Motors
Bill Schumann	Audit Committee Chair	McDermott
Bert Scott	Audit Committee Chair	Becton, Dickinson and Company
Bill Shaw	Audit Committee Chair	The Carlyle Group
Gerald Smith	Audit Committee Chair	Eaton Corporation
Jack Taylor	Audit Committee Chair	Murphy USA
Samme Thompson	Compensation Committee Chair	American Tower
Jim Turley	Audit Committee Chair	Citigroup
John Veihmeyer	Audit Committee Chair	Ford
David Vitale	Audit Committee Chair	United Continental
David Walker	Audit Committee Chair	Chico's FAS; CommVault Systems; CoreLogic
Malia Wasson	Audit Committee Chair	Columbia Sportswear
Maggie Wilderotter	Audit Committee Chair	Hewlett Packard Enterprise
Billie Williamson	Audit Committee Chair	Cushman & Wakefield