SEC CONSIDERS ELIMINATING QUARTERLY REPORTING REQUIREMENT

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At the urging of President Trump, the Securities and Exchange Commission is studying the impact of allowing publicly traded companies to file financial reports just twice a year instead of quarterly, a reduced standard that would turn back the regulatory clock a half century.

On December 18, four months after President Trump raised the idea in a Tweet, the SEC asked for public comment "on the nature, content, and timing of earnings releases and quarterly reports made by reporting companies."

Proponents of eliminating quarterly reports, such as President Trump and the US Chamber of Commerce, argue it would reduce unnecessary expenses associated with preparing the reports and encourage executives to focus on longer-term investments rather than quarterly earnings.

While replies aren't due until March 18, market heavyweights like Larry Fink of BlackRock, Warren Buffet of Berkshire Hathaway and Jamie Dimon of JPMorgan Chase—all of whom decry "short-termism"— are already on the record in favor of quarterly financial reports.

So is the Council of Institutional Investors, which issued a statement the day of the Tweet.

"Investors and other stakeholders benefit when regulations ensure that important information is promptly and transparently provided to the marketplace," CII Deputy Director Amy Borrus said. "Investors need timely, accurate financial information to make informed investment decisions."

That the SEC would consider such a measure is unsurprising, given the anti-regulatory posture of the Trump administration and Republican lawmakers. Over the last two years, the SEC appears to have focused chiefly on promoting capital formation, while pulling back on efforts to protect investors, police markets and ensure corporate accountability.

Enforcement, by most measures, is down since President Trump took office. Meanwhile, the Commission has floated ideas such as allowing companies to issue dual-class shares that permanently enhance insiders' power over that of ordinary shareholders.

The suggestion to reduce the frequency of required reporting came from outgoing PepsiCo CEO Indra Nooyi at an August dinner she and other business leaders attended at a Trump golf club. President Trump offered two motives for the shift, saying in his Tweet that it "would allow

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greater flexibility & save money” and later to reporters: “It made sense. We are not thinking far enough out.”

The SEC echoed these ideas in it 31-page Request for Comment, saying it wanted input on “how we can enhance, or at a minimum maintain, the investor protection attributes of periodic disclosures while reducing administrative and other burdens ... associated with quarterly reporting.”

The Commission also asked whether the existing system of quarterly reports, earnings releases and earnings guidance “may affect corporate decision making and strategic thinking—positively or negatively—including whether these factors foster an inefficient outlook among registrants and market participants by focusing on short-term results.”

But empirical evidence undercuts both these ideas. In fact, two studies cited by Robert Pozen of the Brookings Institution in an article defending quarterly reporting found evidence to the contrary: that the U.K.'s shift from semi-annual to quarterly reports in 2007 and back again in 2013 had no material impact on corporate spending; and that, in the U.S., companies that issued quarterly reports before they were legally required in 1970 had lower equity capital costs than those issuing semi-annual ones.

As the SEC Investor Advisory Committee said in response to a 2016 SEC concept release that touched on quarterly reports, “the current degree, quality and frequency of disclosure for U.S. issuers overall is appropriate and a source of strength for the U.S. capital markets.”

Quarterly financial reports provide important comparative information to investors. If corporate executives are truly concerned about short-termism, they already have the power to take an important step in that direction by discontinuing quarterly earnings guidance, which is not required by the SEC. Removing the self-imposed pressure to meet quarterly earnings-per-share forecasts would likely do far more to encourage long-term focus than going from quarterly to semi-annual reports. ■

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