The Honorable Pat Toomey
United States Senate
455 Dirksen Senate Office Building
Washington, D.C 20510

THE VOGEL GROUP

Subject: Proposals to Foster Economic Growth and Capital Formation

Dear Ranking Member Toomey,

On behalf of AJ Gallagher- the fourth largest insurance broker in the world, we would like to submit a proposal to modernize the SEC quarterly reporting requirements as part of the Committee's efforts to strengthen capital formation and foster economic growth. This recommendation is in response to your request for proposals that would accelerate economic growth and spur job creation by encouraging more companies to become publicly traded, improving the market for private capital, and enhancing retail investor access to investment opportunities.

We write to express support for the exploration and implementation of the Securities and Exchange Commission's Division of Corporation Finance's examination of proposals to ease compliance burdens on public companies and promote policies to that encourage shareholders to invest for the long-term. In particular, we believe that a move toward tri-annual reporting would harmonize reporting practices, benefit capital markets, businesses, employees and investors when organizations are empowered to use their resources to continue to innovate and focus on products that benefit customers and shareholders alike.

Currently, the SEC requires public companies to report their earnings and a variety of other financial statistics every three months with the intent of providing investors with timely data to help them make informed decisions. Producing earnings data that often is costly to investors and financial economists have questioned whether quarterly reporting truly serves the interests of the companies, and it is unclear whether the incremental value of the second, third, or fourth earnings report in a year is worth the incremental cost of producing it.

More importantly, there is evidence that providing earnings data every three months may be counterproductive. Such frequent reporting may engender a myopia amongst managers, encouraging them to focus on achieving quarterly profit targets to the possible detriment of long-run profits.

In 2019, Congressman Tedd Budd (R-NC-13) led a letter that was signed by 27 Members encouraging the SEC to modernize the existing frequency requirements. I have attached this letter.

Last Fall, CATO published a paper which stated, *"Reducing the reporting of earnings data to one, two, or even three times a year would ultimately result in a regime that is more equitable for all investors and provides more useful information at a lower cost".* The authors of the CATO paper also wrote an op-ed in Forbes suggesting the SEC consider modernizing report periods by moving to a tri-annual or semi-annual framework.

We appreciate your efforts around legislative proposals to increase economic growth and would encourage the Committee to evaluate modernizing the existing reporting framework as a mechanism to increase capital formation and foster economic growth.

Thank you for your consideration.

Sincerely,

Brian Johnson
Principal, The Vogel Group

Congress of the United States
Washington, DC 20515

August 6, 2019

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20594

Dear Chairman Clayton:

We write today to commend the Commission's efforts to modernize our capital markets regulations in a manner consistent with the Commission's three-part mission to (i) protect investors, (ii) maintain fair, orderly and efficient markets and (iii) facilitate capital formation.

In particular, we commend the Commission's recent adoption in August 2018 and March 2019 of amendments to modernize and simplify disclosure requirements for public companies.

As the Commission evaluates various additional proposals to alleviate pressures on public companies, we encourage you to continue to give special attention to the topic of disclosure frequency. This is an issue we believe requires periodic examination in order to find the appropriate balance between informational benefits to investors and the associated compliance burdens for companies. As you are well aware, quarterly reporting has been the rule in the United States since 1970. We are pleased the Commission is considering whether adopting a different disclosure frequency could be beneficial to our capital markets. As the Commission itself noted in its Release No. 33-10588 (Request for Comment on Earnings Releases and Quarterly Reports), the European Union and other jurisdictions (including the United Kingdom and Australia) have changed to semi-annual reporting frequency. We also noted with interest that, in letters submitted in response to the above-mentioned Request for Comment posted on the Commission's website, the range of proposed alternatives to quarterly reporting include both semi-annual and tri-annual frequencies.

In an effort to ensure that the United States remains competitive across the global playing field, we encourage the Commission to study issues surrounding disclosure frequency in order to ensure that frequency guidelines for publicly traded companies are up to speed with the expectations of the 21st century economy as well as investor requirements.

We look forward to continuing our work with you on this important issue.

Sincerely,

Ted Budd
Member of Congress

Denver Lee Riggleman III
Member of Congress

Bill Posey
Member of Congress

Ann Wagner
Member of Congress

Paul Gosar
Member of Congress

Guy Reschenthaler
Member of Congress

French Hill
Member of Congress

Andy Barr
Member of Congress

Kevin Brady
Member of Congress

Greg Gianforte
Member of Congress

W. Gregory Steube
Member of Congress

Warren Davidson
Member of Congress

Mark Meadows
Member of Congress

Roger Williams
Member of Congress

Buddy Carter
Member of Congress

Scott Tipton
Member of Congress

Ross Spano
Member of Congress

Lance Gooden
Member of Congress

Barry Loudermilk
Member of Congress

Bryan Steil
Member of Congress

Adrian Smith
Member of Congress

Richard Hudson
Member of Congress

Andy Biggs
Member of Congress

William Timmons
Member of Congress

Jodey Arrington
Member of Congress

Ted S. Yoho, D.V.M.
Member of Congress

Jim Banks
Member of Congress

Oct. 27, 2020

The Honorable Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Release Nos. 33-10588, 34-84842; File No. S7-26-18

Dear Chairman Clayton and Secretary Countryman,

We write to express support for the Securities and Exchange Commission's Division of Corporation Finance's examination of proposals to ease compliance burdens on public companies and promote policies to that encourage shareholders to invest for the long-term. In particular, we feel that a move toward tri-annual reporting would harmonize reporting practices, benefit capital markets, businesses, employees and investors when organizations are empowered to use their resources to continue to innovate and focus on products that benefit customers and shareholders alike.

As the Commission has regularly done under your leadership and this administration, we are encouraged to see the SEC examine rules that can be streamlined to accommodate advances in technology, reducing regulatory burdens that strengthen capital markets and inspire private companies to seek public exchanges. Federal securities laws mandate that public companies disclose financial information throughout the year, which includes three quarterly reports and one annual report, known as Forms 10-Q and 10-K, filed with the SEC's Electronic Data Gathering, Analysis and Retrieval system, a publicly accessible database. As noted by the Wall Street Journal, the size of the company plays a role in determining the cost of reporting:

Companies that have earlier deadlines to file annual reports with regulators—paid audit fees of $541 per $1 million of revenue to their independent auditors in 2016, the latest full-year data available. By contrast, smaller reporting companies that recorded revenue in 2016, a group of 1,554 firms, paid $3,345 per $1 million in revenue.

Additionally, much of the information provided on Form 10-Qs is similarly restated on earning reports filed under Item 2.02 of Form 8-K. With advanced technology, Georgetown University Law Center professor Donald Langevoort notes that large institutional investors use algorithmic trading systems to immediately process earnings accountments and move the market, whereas retail investors are last to react to earnings reports. This delayed reaction and the need to play catch-up may be sending the wrong incentive to retrial investors and it is appropriate for the SEC to examine if regulatory barriers are contributing to "short-termism" within markets.

In the current healthcare emergency, hundreds of businesses have withheld providing traditional quarterly guidance and investors have rightfully excused businesses from attempting to hold themselves to metrics in an uncertain and fluid global marketplace. It is clear that businesses and investors have appreciated this flexibility and the Commission should continue to study the effects further flexibility would create by allowing small and medium size businesses to shift from the current quarterly reporting standard to a tri-annual or semi-annual standard. Less frequent reporting would also allow business to continue to reinvest capital into their products and services, rather than holding capital on the sidelines to comply with regulatory requirements, that in some cases are duplicative in nature.

Chairman Clayton, as you have expressed and continue to lead by example, we appreciate the focus you have exercised to expand the participation of retail investors within our capital markets. Further analysis is needed to examine the role of quarterly reporting and if it could be contributing to disproportionally aligning incentives for short-term trading instead of long-term investing among retail shareholders. We, the undersigned organizations, support the Commission's review of reporting requirements while balancing the need for appropriate levels of disclosure to protect all investors.

Sincerely,

Grover Norquist
President, Americans for Tax Reform

James Setterlund
Executive Director, Shareholder Advocacy Forum

Brent Wm. Gardner
Chief Government Affairs Officer, Americans for Prosperity

Maureen Blum
Executive Director, USA Workforce

Andrew F. Quinlan
President, Center for Freedom and Prosperity

John Berlau
Sr. Fellow, Competitive Enterprise Institute

Adam Brandon
President, FreedomWorks

Ryan Ellis
President, Center for a Free Economy

Gallagher
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USA

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March 14, 2019

Mr. Brent Fields, Secretary

Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-0609

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

Dear Mr. Fields,

Arthur J. Gallagher & Co. ("Gallagher") is a global insurance brokerage, risk management, and consulting services firm headquartered in Rolling Meadows, Illinois. Since our founding in 1927, we have grown from a one-person agency to the world's fourth largest insurance broker based on revenues and one of the world's largest property/casualty third party claims administrators. Gallagher reported 2018 revenues of $6.9 billion, is a member of the S&P 500, and is publicly traded on the New York Stock Exchange under the ticker "AJG". More information on Gallagher and our operations can be found on our website at www.ajg.com.

We appreciate the opportunity to respond to the Commission's Request for Comment on Earnings Releases and Quarterly Reports and have provided, below, responses to several of the Requests for Comment by number. We commend the Commission's efforts to improve and modernize disclosures for the benefit of both investors and public companies.

Our experience suggests investors and analysts rely primarily on our earnings releases to assess our operating performance on an ongoing basis, whereas the disclosures in our 10-Qs are particularly useful for comparing information across peer companies and similar industries and for understanding our financial condition and risk profile. Taken together, earnings releases and 10-Qs provide investors with a more comprehensive picture of our company.

Every three months, we put significant time, expense and effort into gathering, analyzing and preparing information for our public disclosures. We have one integrated process for producing all of our periodic disclosures, developing information that goes into both the earnings release and the 10-Q. While we support efforts by the Commission to streamline and rationalize 10-Q disclosure requirements, even if the requirement to file a 10-Q was removed entirely, we do not believe we would experience a material reduction in the time, expense and effort related to our quarterly disclosure process. For this reason, we believe changes in overall reporting frequency, rather than a marginal reduction in disclosure requirements, have more potential to reduce costs for companies while maintaining the investor benefits of regular periodic disclosure.

We support reducing reporting frequency; however, the public debate surrounding this issue seems to have been limited to only two alternatives: quarterly and semiannual. We believe there is a third alternative that also merits consideration, **a "triannual" reporting framework**. In our view triannual reporting – or reporting every four months instead of every three months – would meaningfully reduce the burden on companies while maintaining the investor benefits of regular disclosures. A triannual framework would simply add one month to each reporting period.

Our support of a reduction in reporting frequency should not be misunderstood as opposition to transparency for investors. An illustration of this point relates to our "quiet periods" around earnings releases. During quiet periods, which generally last for a month, our interactions with current and prospective investors are restricted. A reduction in reporting frequency would reduce the number of quiet periods and create an opportunity for more continuous dialogue with investors regarding our business strategy. If even one quiet period was eliminated per year, this would open up significant additional time for us to interact with the investment community.

Finally, we believe a triannual reporting framework would make the United States more competitive in the global market. While the European Union, the United Kingdom, and Australia have moved away from a quarterly reporting requirement, the United States' reluctance to move in a similar direction may have contributed to companies seeking out alternatives for raising capital, such as the private markets. We believe a move to triannual reporting would help level the playing field globally for our public equity markets.

Request for Comment #1

We issue earnings releases because our experience suggests our investors and analysts depend on them to evaluate our ongoing operating performance. As stated above, we have one integrated process for producing earnings releases and 10-Qs and do not believe that removing only one of these filings would result in a meaningful reduction in cost, effort or time.

Request for Comment #3

The information included in our earnings release reflects management's view of our most important financial information and to a large extent is responsive to the needs, suggestions and demands of investors and analysts.

Request for Comment #12

As noted above, we do not believe that preparing a 10-Q results in significant incremental cost or effort when we are also preparing an earnings release.

Request for Comment #30

The existing quarterly reporting framework places burdens on various business units within our company and consumes significant company resources. Continuously producing earnings reports and 10-Q filings ties up financial resources, human capital, and time otherwise spent on critical business operations. Our management team, Board of Directors, accounting, corporate finance, tax, treasury, legal, and investor relations functions would all experience productivity gains related to a reduced number of reporting cycles. The professional service fees we incur in connection with earnings releases and 10-Qs are easy to quantify. However, the most significant cost, which is more difficult to quantify, is the time and effort expended by our colleagues, management team, and Board members. We believe a reduction in reporting frequency would allow management to spend additional time on operating the business, long-term strategy and ESG-related topics, rather than financial reporting. This would in turn, deliver more value for all of our stakeholders.

Request for Comment #31

As stated above, we support a reduction in reporting frequency. However, we do not believe a move to semiannual reporting is the only meaningful alternative to quarterly reporting. We encourage the Commission to consider the potential benefits of a triannual reporting framework. We believe that reporting every four months instead of every three months would meaningfully reduce the burden on companies while maintaining the investor benefits of regular disclosures. A triannual framework would add only one month to each reporting period.

We also recommend that public companies continue to be subject to existing securities laws that require them to make certain interim disclosures on Form 8-K and to disclose material financial and other information when they are active in the public markets.

Request for Comment #36, #38 and #39

We believe that all categories of reporting companies (*e.g.*, smaller reporting companies, non-accelerated filers, emerging growth companies) should be subject to the same standard of reporting frequency. Creating or allowing different reporting frequencies for different categories of reporting companies would in our view lead to confusion and lack of comparability across companies and industries.

Request for Comment #37

As stated above, we believe a triannual reporting framework would increase the time companies can spend interacting with investors. Regular “quiet periods” around the release of earnings restrict companies from interacting with current and prospective investors. Reducing the frequency of filings creates an opportunity for a more continuous dialogue regarding business strategy. If even one “quiet period” was eliminated, it would result in an additional month of potential interactions with investors.

We appreciate your consideration of our comments on the concept release. Questions for Arthur J. Gallagher & Co. may be directed to Ray Iardella (630-285-3661) or Seth Diehl (630-285-4494). Thank you for your consideration.

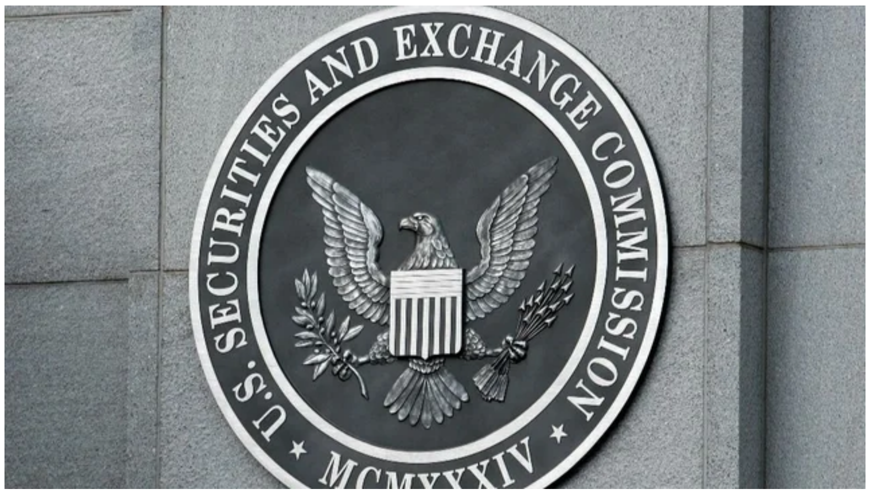
Sincerely,

Douglas K. Howell
Corporate Vice President, Chief Financial Officer
Arthur J. Gallagher & Co.

THE HILL

SEC reforms will save job creat time and money

BY REP. TED BUDD (R-NC), OPINION CONTRIBUTOR — 10/07/19 08:00 AM EDT



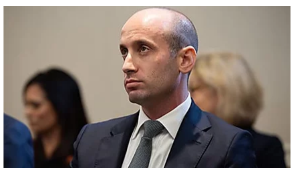
© Getty Images

I led an effort with 27 members of Congress to send a letter to the Securities and Exchange Commission (SEC) Chairman Jay Clayton, asking the commission to ease regulatory burdens on job creators across the country.

Our letter advocates for reform of corporate disclosure frequency to align with our global competitors and to incentivize more companies to invest and expand. There are several potential alternatives to the outdated quarterly disclosure model, such as semi-annual or tri-annual reporting. While we have plenty of options, one thing is clear: we must find a more appropriate balance between informational benefits to investors and the associated compliance burdens for companies.

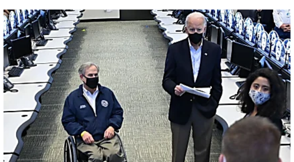
Recently, the SEC issued a Request for Comment in order to solicit feedback from market participants on ways to reduce the financial reporting burden on companies, improve efficiency and effectiveness of quarterly reporting, and continue to preserve or enhance investor protection. In response, there has been a flood of comment letters from notable companies on the subject. Interest in this issue comes at the heels of an American economy that is experiencing significant growth. Through legislative proposals introduced in previous years, Congress also recognizes that revising disclosure requirements is an important step toward continuing and enhancing this growth and maintaining American competitiveness across the Atlantic.

While the European Union, the United Kingdom, and Australia have moved away from a quarterly reporting requirement, the United States has been reluctant to move in a similar direction and that is a contributing factor to companies seeking out alternatives for raising capital, like private markets. A move to semi-annual or tri-annual reporting would help level the playing field globally for our public equity market. One such business with over 100 employees in North Carolina has estimated that such reforms would save them in excess of 6,000 employee hours every year, and over a 10-year period, over $50 million dollars. These are savings that every business can use to hire more workers, raise wages, or pass on to the consumer in the form of lower costs.



President Trump expressed his interest in the issue last year when he tweeted, “In speaking with some of the world’s top business leaders I asked what it is that would make business (jobs) even better in the U.S. ‘Stop quarterly reporting & go to a six month system,’ said one. That would allow greater flexibility & save money. I have asked the SEC to study!”

The SEC has a perfect window to work with us and enact these much-needed reforms that will spur the acceleration of the economy throughout the whole country.



Congressman Ted Budd *is a Republican who represents the 13th District of North Carolina and sits on the House Financial Services Committee.*

SECURITIES & EXCHANGE

Too Much Information?

Investors and corporations could benefit from less frequent financial reporting.

BY IKE BRANNON AND ROBERT JENNINGS

The Securities and Exchange Commission requires public companies to report their earnings and a variety of other financial statistics every three months. The requirement is intended to provide investors with timely data to help them make informed investment decisions.

Financial economists have long questioned the practice, wondering if it really does serve the interests of investors. There are reasons to think it does not. For starters, producing earnings data often is costly both to investors and the firms, and it is unclear whether the incremental value of the second, third, or fourth earnings report in a year is worth the incremental cost of producing it.

Second, there is evidence that providing earnings data every three months may be counterproductive. Such frequent reporting may engender a myopia among managers, encouraging them to focus on achieving quarterly profit targets to the detriment of long-run profits.

Third, the frequent reporting of earnings may create noisier data. Isolated events that significantly affect profits in one quarter may cause investors to overreact. The complementary fear is that companies may take steps to "smooth" these ephemeral fluctuations, either via accounting gimmicks (thereby rendering the data less relevant) or by making real changes to the company's operations that potentially reduce long-term profits.

Finally, the quarterly reporting of earnings data may crowd out the release of ancillary, relevant information. In a world where managers want to keep investors fully informed of their companies' fiscal health, trading off the frequent and voluntary provision of relevant data for mandatory (and costly) quarterly reporting may not be in investors' best interests.

The effect of frequent reporting periods can manifest in various ways. For instance, the strictures that quarterly reporting places on the management of public companies are one reason why start-up companies and their investors have been content to eschew initial public offerings (IPOs) and remain privately held for a longer period than was the case in the 1980s or 1990s. The 10 years Uber spent as a "unicorn"—a highly valued, privately held firm—can be attributed in part to the desire to avoid the additional costs of quarterly reporting.

The costs of being a public corporation have gone up in the last two decades. The Sarbanes–Oxley Act significantly increased reporting costs for public corporations, reducing new IPOs. The 2010 Dodd–Frank Act includes several expensive rules, including "conflict mineral" reporting and chief executive officer compensation disclosure. (See "The Meaningless of the SEC Pay Disclosure Rule," Spring 2014.) These requirements help to explain why the ratio of private IPOs (that is, non-public capital fundraisings) to public IPOs has increased significantly since 2000.

The SEC recently indicated that it would study whether to reduce earnings reporting to semi-annual or even annual events. Reporting frequency differs between Europe and North America and has also changed various times in the United States since the 1950s, providing data with which to study the issue. The research suggests that a reduction in reporting periods is well worth considering.

REPORTING FREQUENCY MAY ABET MANAGERIAL MYOPIA

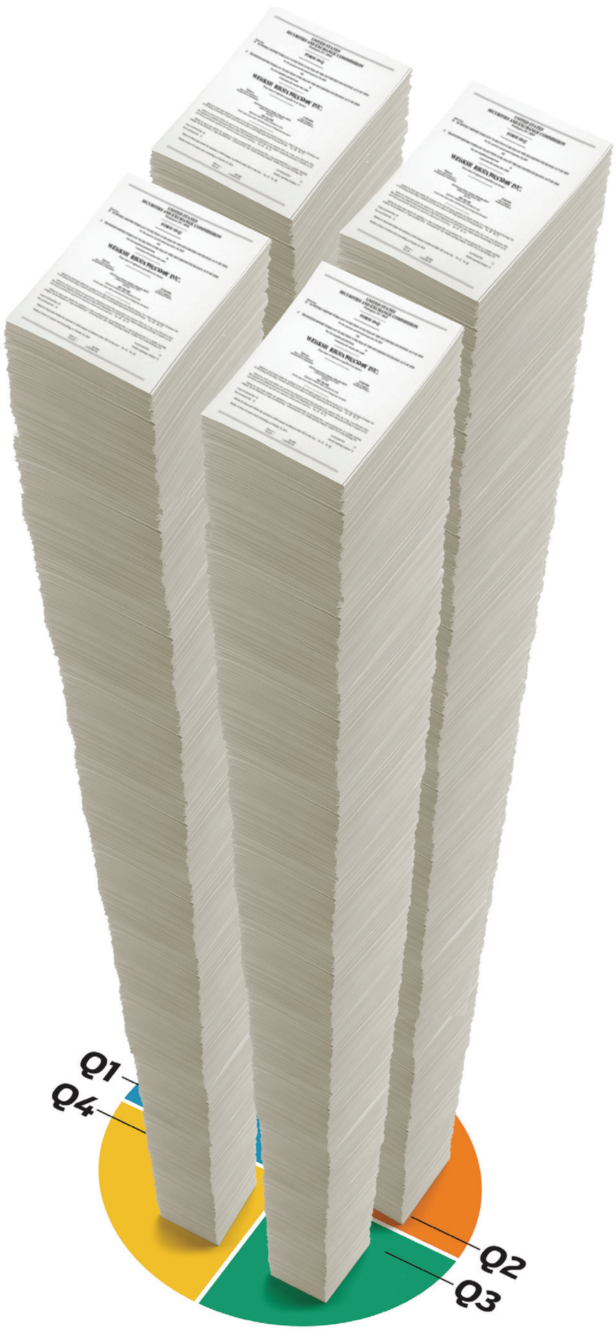
The most common criticism of quarterly reporting is that it leads to managerial "short-termism" whereby firms place an excessive emphasis on achieving short-run earnings goals at the expense of long-run growth. A firm preoccupied with satisfying financial markets every three months may be tempted to reduce productive long-term investments elsewhere—such as research and development—to hit its quarterly numbers.

Blackrock chairman and CEO Larry Fink and former PepsiCo CEO Indra Nooyi advocate releasing earnings every six months, while JP Morgan CEO Jamie Dimon and Berkshire Hathaway CEO Warren Buffett, *eminences grises* of the investment world, have suggested that ending quarterly earnings guidance would be a good first step toward reducing the short-term thinking that too often occurs in the boardroom.

Arguably the most successful public corporation of the 1990s,

IKE BRANNON is a senior fellow at the Jack Kemp Foundation and a contributing editor to *Regulation*. ROBERT JENNINGS is professor emeritus of finance at Indiana University.

General Electric was famous for exceeding analysts' expectations by a penny a share each quarter for years at a time. That was one of the reasons it became the most valuable company in the world. However, its obsession with attaining positive quarterly earnings surprises ultimately hurt shareholders as the firm devoted much more effort to accounting chicanery than to producing long-term growth. In the 1990s, it typically used carefully timed capital gains and restructuring charges and reserves to smooth earnings. When GE's profitability started to go south, it relied on more costly measures to maintain its earnings growth. At one point it began giving deeply discounted service contracts to customers that paid up-front or agreed to a lengthy extension, and its capital expenditures have fallen significantly each year since 2015. In the last decade, GE has suffered a series of setbacks that have eroded more than 70% of its market cap, resulting in it being removed from the Dow Jones Industrial Average and almost broken up entirely.



A considerable amount of research finds evidence that frequent reporting requirements beget short-term decision-making or accounting perfidy to the detriment of long-run performance. For instance, one study undertook a cross-country comparison of firms reporting earnings quarterly versus semi-annually before and after the European Union dropped its quarterly Interim Management Statement requirement. It finds that firms required to report earnings more frequently are more likely to manipulate earnings in order to avoid disappointing capital markets.

Manipulating earnings—or expectations—is common. The more a company manages to beat earnings, the more its officers believe they need to continue to do so in the following quarters. That makes them more inclined to manipulate earnings, make economic decisions solely to meet accounting goals, or even violate Generally Accepted Accounting Practices to meet profit expectations. Bookings Holdings, the entity that contains Priceline, beat the market's profit expectations 28 times in a row, helped in part by its frequent issuance of profit warnings during that period. The shoe company Caleres met its estimated quarterly earnings one time by decreasing its inventory reserve and recording a periodic benefit income from its pension by assuming an unrealistically high rate of return.

Researchers Arthur Kraft, Rahul Vashishtha, and Mohan Venkatachalam used the U.S. transition from annual to semi-annual reporting in 1955 and from semi-annual to quarterly reporting in 1970 to examine the effect of more frequent reporting on firms' investment levels. They find that a switch to semi-annual and then to quarterly reporting coincided with a significant decrease in investments (1.7% of total assets, 22% of investments) without any demonstrable increases in performance or efficiency.

Renhui Fu, Kraft, Xuan Tian, et al. also find that firms that report more frequently appear to have less corporate innovation as measured by patents applied for, patents received, and the number of citations of a firm's patents. The authors estimate that an increase in reporting frequency for a firm that has patents will see a reduction of two patents, 12 non-self-citations (a measure of the patent's significance), and a $2.25 million reduction in the value of their patents compared with a firm that does not have an increased number of reporting periods.

TOO MUCH INFORMATION OR TOO LITTLE?

Another problem with frequent reporting standards is that it can crowd out the creation of other useful information that would have been provided in its absence. For instance, a company reporting earnings two or three times a year might be more inclined to informally notify investors of events that could potentially affect the company's performance and provide more detailed color on its earnings. Companies would not provide such information out of some notion of altruism, but because investors would find value in such data and be more inclined to invest in companies that are forthcoming.

Even if quarterly earnings data do have a modicum of value to investors, it may not be cost-effective to require this reporting. Because reporting might crowd out other useful data that firms would otherwise produce, we should compare the cost of producing the report to its net value—its relative usefulness minus the potential benefits gained from additional voluntary disclosures. That number may not be much different from zero—and below the cost to firms to produce it and the potentially bad incentives it engenders.

Quarterly earnings statements may also create unintended incentives for trading in the capital markets that regulators would prefer to avoid. For instance, each time the firm releases information to the public that was previously known only to the firm, it provides an opportunity for sophisticated traders to generate private (and socially valueless) information before interacting with less-well-informed investors and exploiting the average investor who is not privy to such information.

Several studies have examined the interaction between public information releases and incentives for short-term trading. For instance, Maureen McNichols and Brett Trueman show that information asymmetry may increase prior to and during predictable information events—such as quarterly earnings statements—if those events induce private information acquisition prior to public disclosure. In other words, more frequent mandatory reporting periods may create more opportunities for sophisticated traders to participate in pre-announcement information production and trading, and trade out of their positions immediately after the announcement. If the intent of public information releases is to "level the playing field" among investors, mandating frequent earnings statements may be counterproductive.

Data support this notion. John Campbell, Tarun Ramadorai, and Allie Schwartz find that large institutional traders and algorithmic traders can anticipate both earnings surprises and post-announcement earnings drift better than "Main Street" investors. Alex Frino et al. find that algorithms react faster and more correctly in the immediate aftermath of earnings announcements than non-algorithmic traders and time their trades better as well, making them more profitable than non-algorithmic traders in that interval. Oliver Kim and Robert Verrecchia conclude that public disclosures may generate information asymmetry among traders who are differentially able to process the disclosures. In other words, frequent reporting may be putting Main Street investors at a disadvantage to hedge funds and others with a plethora of information—the precise opposite of its intent.

Other research examines the interaction between mandated reporting, voluntary guidance by managers, and private information production. Frank Gigler and Thomas Hemmer examine the relation between mandated and voluntary reporting and the efficiency of stock prices by comparing periodic mandated disclosure with voluntary management guidance. They argue that mandatory disclosure is a noisy signal of managerial information and is less timely than manager insights given voluntarily. Less frequent, mandated reporting is superior if the management can disclose material information at its discretion.

Kenton Yee finds that increasing the frequency of mandated reporting causes the amount of redundant private information production to rise because there are more opportunities to trade in advance of public disclosure. Redundant private information is socially wasteful because people and firms devote resources to produce it and it does not benefit investors writ large.

There is also evidence that quarterly reporting crowds out other useful information. For instance, Suzie Noh, Eric So, and Joseph Weber find that voluntary guidance fell with the imposition of mandatory 8K filings. That led them to conclude that mandatory reporting is a substitute for management's provision of timely, relevant data.

Douglas Howell, the chief financial officer for insurance brokerage Arthur Gallagher, told the SEC in a comment that the "quiet month" that customarily precedes each report (at the behest of the SEC) makes it more difficult for firms to have regular interactions with investors. He suggested that a move to tri-annual reporting would allow investors to better maintain contact with companies in which they have invested.

RANDOMNESS IN THE DATA

Another drawback of quarterly reporting is that, because three months is such a short period of time, a great deal of randomness will affect the reports. For instance, a single, sizable sale might distort earnings in a quarter, or a large or unexpected contingency (such as a pandemic) may produce an anomalous loss in a quarter. However, in four months, six months, or a year those anomalies are more likely to even out. The shorter the period, the noisier the data and the more difficult it is for investors to interpret.

Consider the experience in China for the recent novel coronavirus outbreak. The country imposed strict quarantine protocols toward the end of January 2020, shuttering many businesses—including all Apple stores in the country—in early February for nearly six weeks. With a September fiscal year-end, Apple's first-quarter numbers in China were not seriously affected by the outbreak, its second quarter numbers will reflect very few sales before the shutdown, and its third and fourth quarter numbers will depend on how quickly the public resumes spending and the country's progress in combating the virus. Although the yearly numbers are likely to be depressed relative to a "normal" year, the annual figures are likely to be less affected by the outbreak than the second quarter numbers. And, to the extent that there is pent-up demand that is fulfilled in the third and fourth quarters, the year may even appear to be close to "normal."

It is instructive that while the International Accounting Standards Board details the type of information firms should disclose, it pointedly declines to mandate a reporting frequency. Instead, it leaves that to "national government, regulators, stock exchanges, and accounting bodies," in effect acknowledging that the frequency decision requires a tradeoff between reporting timeliness and reporting accuracy. If the frequency did not affect accuracy, then the total volatility of stock prices reacting to this information over longer periods would be unaffected by reporting frequency.

Cross-country comparisons find that countries that report earnings more frequently exhibit more long-term stock-price volatility. Yah Mensah and Robert Werner discern greater stock price volatility in U.S. and Canadian firms reporting earnings quarterly compared to United Kingdom and Australian firms that report semi-annually. Ceteris paribus, more frequent reporting gives investors more timely but noisier data.

Noisiness might be an acceptable price to pay if more frequent reporting leads to new information being incorporated more quickly into stock prices, but that does not appear to be the case. Marty Butler, Robert Kraft, and Ira Weiss use the U.S. transition to semi-annual and quarterly reporting in 1955 and 1970 to discern whether these mandates sped up the incorporation of new data into the market. They find no evidence of it. Interestingly, they do find that the firms that voluntarily adopted quarterly reporting well before the 1970 mandate saw increased pricing efficiency. Firms apparently will choose the reporting frequency that is best for their situation—another argument for choosing a reporting regime that does not crowd out private information.

ARE DISCRETE REPORTING INTERVALS OBSOLETE?

Investor and writer Barry Ritholz once suggested, only partly tongue-in-cheek, that a solution to the yoke of reporting quarterly earnings would be to require firms to report data daily. If firms provided all relevant data as quickly as possible, he argued, then the market could decide how to aggregate it.

That is not a crazy idea. The U.S. Bureau of Economic Analysis and Bureau of Labor Statistics are experimenting with providing data to investors and academics more frequently than their regular monthly or quarterly forecasts. Raj Chetty has shown that it is now possible to track economic activity amid the pandemic on a day-by-day basis. However, the motivation behind each of these data sets is to *supplement* and not replace regular data releases.

Investors want firms to provide a modicum of standardized, relevant data on a regular basis. If the SEC did not require firms to do this quarterly, the firms would still provide investors with timely information to help the investors discern a firm's financial health.

There is evidence that the current status quo for reporting earnings data every three months tends to benefit knowledgeable investors to the detriment of others. It also creates counterproductive incentives for firms to either manipulate their earnings data or—far worse—to make economic decisions solely for the purpose of meeting short-term earnings targets. What's more, the marginal benefit that quarterly earnings reports provide investors may be negligible because, if the requirement were dropped, firms would rationally increase the provision of other relevant data in order to keep investors up to date and comfortable investing in their company. The one-month quiet period between a company and its investors before each earnings release especially inhibits such communications.

Reducing the reporting of earnings data to one, two, or even three times a year would ultimately result in a regime that is more equitable for all investors and provides more useful information at a lower cost. In fact, tri-annual reporting may be the tractable compromise that satisfies all parties. In any event, the SEC is right to consider such a change. *R*

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Sep 25, 2020, 10:00am EDT | 557 views

How To Improve Quarterly Earnings Reports? Do Them Less Frequently

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Policy

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Publicly-traded U.S. corporations must report earnings four times a year in order to provide investors timely information of their company's performance. However, while intuition may suggest that more data is always better, reporting profits so frequently may be counterproductive. In a report published by the policy journal *Regulation,* we suggest that the SEC consider reducing the reporting periods from four each year to two or three.

One problem with quarterly earnings reports is that executives often find ways to manipulate them in order to achieve profit goals that satisfy investors or trigger executive bonuses. The tendency for firms to slightly exceed their expected profits does not owe to the prescience of Wall Street analysts but is an inevitable outcome of a process that rewards firms that manage to meet or exceed expectations. In a reporting period that lasts just three months a firm at risk of meeting its profit targets can postpone bringing a debt onto the books or else realize revenue earlier without too much effort.

While reducing the reporting periods won't eliminate the incentive altogether it would reduce it, since such shifts would have a smaller relative impact across longer time intervals.

What’s more problematic than the manipulation of reported earnings is that the incentive to meet quarterly earnings targets may actually influence material decisions made by executives. Stockholders should want companies to make decisions that maximize the present value of its long-run earnings, but companies often make material transactions that are deleterious to the bottom line solely to bolster short-term earnings.

For instance, one of the (many) factors that led to the downfall of GE was the penchant for its management to regularly meet quarterly earnings goals. But as the firm's performance began to decline its management resorted to costly maneuvers to keep up with expectations. For instance, to boost one quarter’s earnings GE began giving deeply discounted service contracts to customers who paid up front for a lengthy extension. While the transaction helped them meet a quarterly profit goal, the future income sacrificed was so large that the maneuver made little sense except in the context of satisfying earnings.

Besides the misplaced incentives, quarterly reporting can often be too noisy to be very useful. To understand why, consider a firm forced to strictly report earnings every day. Most firms in that situation would have wildly oscillating profits: one day a company might make a major sale and post a huge profit, and the next day it may settle an outstanding debt and be forced to post a huge loss. Each day’s reporting by itself would have little value, and investors would come to aggregate the daily numbers themselves to make sense of it or else demand that firms do so themselves.

We don’t know what the optimal frequency for reporting earnings is but it is clearly not daily. We submit that it probably isn’t quarterly either.

Ultimately, we suspect that before too long the very notion of discrete reporting intervals will become obsolete and that in its stead, public companies will report a variety of data in real time. Our government statistical agencies are rapidly trying to do such a thing, and companies can and do report material information much more frequently than once a quarter.

Such a regime would allow investors to still calculate quarterly profits if they saw value in doing so, but it is more likely that few would see the need: a modicum of IT could transform such data into whatever metrics an individual investor found most useful. Such an evolution would likely trigger a rise in the development of new statistics to measure firm performance akin to what has occurred in professional sports the last few years.

No one disputes the need for public corporations to regularly report data on their performance, but the status quo remains in place largely because of inertia, and few people would deny that it can be improved upon. Having earnings reported two or three times a year instead of quarterly would be a good first step towards a new regime for financial reporting.