Harvard Law School Forum on Corporate Governance and Financial Regulation

SUPPORTED BY: CSC

Legal & General Calls for End to Quarterly Reporting

Posted by Martin Lipton, Wachtell, Lipton, Rosen & Katz, on Wednesday, August 19, 2015

Editor's note: Martin Lipton is a founding partner of Wachtell, Lipton, Rosen & Katz, specializing in mergers and acquisitions and matters affecting corporate policy and strategy. This post is based on a Wachtell Lipton memorandum by Mr. Lipton and Sabastian V. Niles. Related research from the Program on Corporate Governance includes The Long-Term Effects of Hedge Fund Activism by Lucian Bebchuk, Alon Brav, and Wei Jiang (discussed on the Forum here) and The Myth that Insulating Boards Serves Long-Term Value by Lucian Bebchuk (discussed on the Forum here).

This summer, Legal & General Investment Management, a major European asset manager and global investor with over £700 billion in total assets under management, contacted the Boards of the London Stock Exchange's 350 largest companies to support the discontinuation of company quarterly reporting, emphasizing that:

- "[R]eporting which focuses on short-term performance is not necessarily conducive to building a sustainable business as it may steer management to focus more on short-term goals and away from future business drivers. We, therefore, support the recent regulatory change that removes the requirement for companies to disclose financial reports on a quarterly basis."
- "While each company is unique, we understand that providing the market with quarterly updates adds little value for companies that are operating in long-term business cycles. On the other hand, industries with shorter market cycles and companies in a highly competitive global market environment may choose to report more than twice a year."
- "Reducing the time spent on reporting that adds little to the business … can lead to more articulation of business strategies, market dynamics and innovation drivers, which are linked to key metrics that drive business performance and long-term shareholder value.

Following publication of Professor John Kay's "Review of UK Equity Markets and Long-Term Decision Making," the U.K. government concluded that "rigid quarterly reporting requirements can promote an excessively short-term focus by companies, investors and market intermediaries and impose unnecessary regulatory burdens on companies, without providing useful or meaningful information for investors," and accordingly stopped mandating such practice, effective for 2015 and beyond. Indeed, as the Aspen Institute emphasized years ago, "the focus of some short-term investors on quarterly earnings and other short-term metrics can harm the interests of shareholders seeking long-term growth and sustainable earnings," particularly where companies "pursue strategies simply to satisfy those short-term investors," as doing so "may put a corporation's future at risk."

While U.S. companies do not, *as of yet*, have the option of discontinuing quarterly reporting (though they do have discretion to decline giving quarterly earnings guidance), the SEC should keep these observations in mind in pursuing disclosure reform initiatives and otherwise acting to promote, rather than undermine, the ability of companies to pursue long-term strategies.

These sentiments expressed by Legal & General—coupled with the strong views on broader topics expressed by BlackRock, Vanguard, State Street and other institutional investors targeting the U.S. market—are a welcome reminder that we may still achieve a capitalism in which long-term, responsible investors champion boards and management teams that resist pressures to maximize short-term stock prices at the expense of sustainable long-term investment and wealth creation.