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SEC to Study Quarterly Reporting & Earnings Guidance and their Contribution to Short-Termism

In a potentially significant step for public companies and the U.S. economy, the SEC today launched a formal comment process aimed at optimizing the periodic reporting system for U.S. companies. The SEC's review is wide-ranging, reaching whether reforms could and should be made to discourage quarterly forward-looking earnings guidance, the reasons for quarterly earnings releases and their content, whether Form 10-Qs are useful or overly burdensome or duplicative, the possibility of moving to mandatory or optional semi-annual reporting for all or some reporting companies, the degree to which the frequency of reporting and guidance may lead managers to focus on short-term results to the detriment of long-term performance, the identification of other factors that may promote short-termism and whether there are relevant learnings from other markets where companies can report on a six-month or other schedule.

For most companies, quarterly reporting consumes substantial time and expense and imposes opportunity costs, as management teams focus on quarterly results. These quarterly cadences are often deeply disconnected from long-term business cycles, key business drivers, customer dynamics, innovation opportunities and market realities. Three-month cycles are also disconnected from the time frames over which retail investors who are saving for retirement, looking to buy a home and pay college tuition are seeking a return. A thorough examination of the topic – with a view towards striking the right balance among reasonable transparency, reducing regulatory burdens and encouraging companies to focus not on the quarter but on the long-term – is a very worthy project for the SEC.

Unlike other markets, U.S. companies do not currently have the option of discontinuing quarterly reporting, and it remains to be seen whether the outcome of the SEC's review will result in substantial changes to the quarterly reporting and disclosure system. U.S. companies can, however, decline to give quarterly earnings guidance and take other actions to promote a long-term orientation for their investors, employees and internal strategic and business decision-making.

Whatever the SEC's ultimate decisions may be, we do expect companies to become increasingly proactive in putting near-term results in the context of long-term strategy and objectives; using quarterly calls and releases to discuss progress towards important operational and financial goals that take time to achieve; and replacing quarterly rhythms with broader, multi-year frameworks for value creation with time frames that align with business, end market and operational realities. We also encourage responsible long-term investors to support these initiatives, as many do.

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