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International Corporate Governance Network

ICGN Viewpoint

Quarterly reporting: Too much of a good thing?

September 2018

The debate over the possible merits and demerits of quarterly reporting is not a new one, and it is distinguished as an area where thoughtful investors can hold differing views, often reflecting jurisdictional preferences and regulatory standards.

For the most part investors regard quarterly reporting as an important element of transparency and as a management discipline, and would not like to give that up. But some investors believe that quarterly reporting is not only costly, but also distracting, and that it discourages long-term thinking by both companies and investors.

Enter into this debate US President Donald Trump, who raised the visibility of this issue by expressing his own doubts about quarterly reporting and by instructing the US Securities and Exchange Commission to review this issue. This was heralded by London's Financial Times as "possibly the most sensible tweet" of Trump's presidency thus far. Given the size and impact of the US financial markets globally this debate has the potential to extend further to influence reporting standards in a number of markets around the world-- in a way that some investors might support, but other investors might find to be retrograde.

What are the ills of quarterly reporting?

Critics of quarterly reporting cite its cost, its distractions on management as a compliance burden and the tendency to focus both companies and investors on short term results at the expense of potentially greater sustainable value creation over time. These are factors that might discourage some companies from public listings or result in sub-optimal long-term decisions relating to investments, capital allocation and stakeholder relations.

The UK is home to much of the advocacy against quarterly reporting. This stems in part from the influence of the Kay Review on UK equity markets in 2012 which associated quarterly reporting with investor short-termism. Many UK companies now report on a six-monthly basis, and a leading UK investor body, the Investor Association, building from its 2016 Productivity Action Plan, actively supports UK listed companies moving away from quarterly reporting as a way to promote longer term thinking.

Benefits of quarterly reporting

But this UK perspective is by no means the norm among investors globally. Investor bodies around the world often share similar views on many corporate governance issues, such as dual class shares, board independence, or audit quality. Not so in quarterly reporting. In a recent meeting of the Global Network of Investor Associations (GNIA), an informal information sharing body convened by ICGN, the Investor Association's position against quarterly reporting met with opposing views by investor associations from a range of other markets, both developed and emerging, including the Council of Institutional Investors (CII) in the United States, the Asian Corporate Governance Association (ACGA), Amec in Brazil and the Minority Shareholders Watch Group (MSWG) in Malaysia. In addition, the Dutch investor association Eumedion has issued a policy statement (2016) titled "Long-Termism and Quarterly Reports Fit Well together."

There remains a strong view amongst these investor bodies that quarterly reporting is an important element of transparency for investors, as well as a positive discipline for management. While these investor groups embrace long-term thinking by companies and managers there is less acceptance of the argument that quarterly reporting itself results in short-termism, or that it is unduly costly and burdensome.

Can differing positions be reconciled?

As much as ICGN aims to establish some consensus on important governance questions facing investors globally, this is not always easy or possible to do. ICGN has yet to issue a formal policy statement on quarterly reporting, in part reflecting these diverse perspectives of its membership base. But reflecting existing ICGN policy principles and priorities it is possible to articulate an ICGN approach to this question.

In the first instance, ICGN supports transparency as a guiding principle of corporate governance, and while we understand the arguments of how quarterly reporting might encourage short term thinking, it is not clear if these arguments are supported by strong causal evidence. Indeed, we are aware of studies suggesting this is not the case, and of economic arguments suggesting that relaxing reporting periods could result in a higher cost of capital as a result of greater investment uncertainty. We also recognise the positive discipline that reporting can bring to companies vis-à-vis their accountability to investors, both shareholders and creditors.

Hence, for markets where quarterly reporting is currently established, ICGN is unlikely to advocate a change to six-month reporting. At the same time, however, we are also not likely to advocate that jurisdictions with six month reporting regimes should revert back to a quarterly reporting basis. This is particularly the case for the UK, where the institutional investor community has built strong engagement relationships with UK listed companies that in many ways may partially compensate for less regular corporate financial reporting. The urgency for quarterly reporting may well be less compelling in the UK relative to other markets.

Hence, ICGN has remained agnostic on this specific point of quarterly versus six-month reporting. While this may be an important question to some, to ICGN it may not be the right question—or at least not be the most important question relative to other ICGN policy priorities. As ICGN shapes its thinking on this issue further on this question our policy positioning will take the following factors into account:

- What does the evidence say? There are theoretical arguments both for and against quarterly reporting. Both sides can express a logical articulation of the pros and cons. But if rigorous evidence is limited or inconclusive about reporting periods, ICGN's own positioning on timing is likely to remain agnostic—but possibly biased in favour of a quarterly reporting standard.
- Quarterly guidance is a much greater concern than quarterly reporting. When companies give quarterly earnings guidance, the great temptation is to manage to short term numbers—and for investors to value companies in a similar way. This — and not the timing of the reports -- is where the short-termist concerns have greatest substance, and groups advocating quarterly reporting, such as the Council of Institutional Investors in the US, are also discouraging the practice of quarterly guidance. This is probably the most sensible place to focus the overall debate, and a challenge to quarterly guidance — rather than quarterly reporting -- is likely to be an issue on which many investors will agree.
- Beware of “hidden” agendas that can threaten investor accountability and voice. It can be easy to couch lengthier reporting periods around the comforting and worthy veneer of promoting long-termism. However, extending reporting timeframes from three to six months is hardly a leap into the long-term, and its underlying intent should not be to avoid or marginalize investor scrutiny and accountability. Investors should be alert to the politicization of this issue and whether this might be a hidden agenda underlying the Trump tweets.
- Global dynamics: emerging markets as a case study. Solutions to reporting timeframes in individual jurisdictions can legitimately differ. While the UK may have its own reasons for discouraging quarterly reporting, investor associations in other jurisdictions within the GNIA emphasise the important discipline of quarterly reporting for minority investors vis-à-vis controlling shareholders. This is particularly true in emerging markets, where information asymmetry is perhaps the most acute. This suggests that the merits of stricter reporting requirements in emerging markets may offset potential concerns about short-termism.

In sum, the issue of quarterly reporting is arguably less of a concern than quarterly guidance, and we also believe that many investors can build consensus around this approach. Our policy positions should be guided by evidence, but we are aware of the differing dynamics in markets around the world and understand that reporting requirements and needs may differ by jurisdiction. Ultimately our policies support governance practices that foster sustainable value creation – and sustainable returns for investors and their beneficiaries. This requires a long-term perspective, but also with an awareness of short-term turns in the road. Very much an art, not a science.

About ICGN Viewpoints

This ICGN Viewpoint was prepared by ICGN Policy Director, George Dallas. While not defining a formal ICGN position on the subject, ICGN Viewpoints provide opinion on emerging corporate governance issues and are intended to generate debate. If you have questions or comments, please address these to the ICGN Secretariat or to its Disclosure and Transparency Committee.

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