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Edgecliffe-Johnson & Badkar, 2018

Trump asks SEC to study scrapping quarterly ea

President says six-month reporting would 'allow greater flexibility an

Critics of the quarterly reporting system say it distracts companies from focusing on longer-term financial and strategic goals

Andrew Edgecliffe-Johnson and Mamta Badkar in New York AUGUST 18, 2018

US president Donald Trump has asked the Securities and Exchange Commission to consider scrapping the demand that public companies report their earnings every three months, weighing in on a practice many blame for corporate short-termism.

The unexpected intervention in a debate that has exercised executives and large investors came in a Twitter post in which Mr Trump said he had asked "some of the world's top business eaders" what would improve business and the US job market.

Indra Nooyi, PepsiCo's outgoing chief executive, had suggested shifting from quarterly reporting to a "six-month system", he said, predicting that such a move would "allow greater flexibility & save money". Mr Trump said he had asked the SEC to study the matter.

Jay Clayton, chairman of the SEC, said it was already considering measures to encourage long-term capital formation while preserving or strengthening investor protections.

Critics of the quarterly system have argued that the longstanding Wall Street tradition is costly, distracts companies from focusing on longer-term financial and strategic goals, and may deter companies from going public.

Its defenders say it improves transparency, and argue that longer intervals between financial disclosures create more incentive for insider trading.

Donald J. Trump @realDonaldTrump

Following

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!

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Pressure for a more long-term approach to business has been building on several fronts, with a coalition of business leaders and asset managers calling two-years ago for US companies to end quarterly earnings guidance, rather than ending quarterly reporting altogether. US companies are not obliged to provide such guidance, but most do, running the risk of being punished by investors if they miss their forecasts.

Ms Nooyi said many market participants and the Business Roundtable have been "discussing how to better orient corporations to have a more long-term view".

"My comments were made in that broader context, and included a suggestion to explore the harmonisation of the European system and the US system of financial reporting. In the end, all companies have to balance short-term and long-term performance," she added.

The US, which mandated quarterly reporting in 1970, has become an outlier in demanding public companies issue financial reports every three months. In 2013, the European Commission abolished the requirement, saying it posed an unnecessary burden on small and medium-sized companies.

Paul Polman, chief executive of Unilever, scrapped the company's quarterly reports on his first day in the job in 2009, and BlackRock's Larry Fink has talked of "quarterly earnings hysteria".

In June, Jamie Dimon, JPMorgan Chase chief executive, and Berkshire Hathaway's Warren Buffett led a group of almost 200 US chief executives in arguing that such short-termism was harming the economy. "The pressure to meet short-term earnings estimates has contributed to the decline in the number of public companies in America over the past two decades," they wrote.

A team from City University and Duke University's Fuqua School concluded in 2014 that more frequent reporting contributed to "managerial myopia". Professor Rahul Vashishtha, one of the authors, said on Friday it was "sensible" to review a system that put excessive pressure on executives to manage quarter by quarter.

Robert Pozen, a senior lecturer at MIT Sloan School of Management, warned however that it was "a red herring" to think corporate short-termism would be ended by moving to six-monthly reporting. "Six months is nobody's idea of long term," he said.

Mr Pozen said he had studied the impact of the UK moving to a quarterly reporting regime in 2007, and found no evidence that it affected investment in research and development. Instead, he argued, companies should end their practice of projecting results for individual quarters. "There is no [SEC] requirement for quarterly projections or guidance. It's something companies have chosen to do," he said.

Many London-quoted companies abandoned quarterly reporting after the Financial Conduct Authority, the UK regulator, removed the requirement for listed companies to publish interim management statements in 2014.

Mr Trump's call for an SEC study was "a significant and positive intervention", said Chris Cummings, chief executive of the UK's Investment Association, which represents asset management companies. "The challenge for many global companies . . . is that the SEC rules in the US require them to report quarterly in order to list in America," he said.

Mr Trump's move comes as his administration's business-friendly reputation has been tested by his trade policy. Several business groups have spoken out to argue that the costs of tariffs could outweigh the benefits of the cut to corporate tax rates passed by Congress in December.

Additional reporting by Peter Smith in London