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SEC examination of quarterly schedule focuses on balancing costs with need for disclosure

By Francine McKenna
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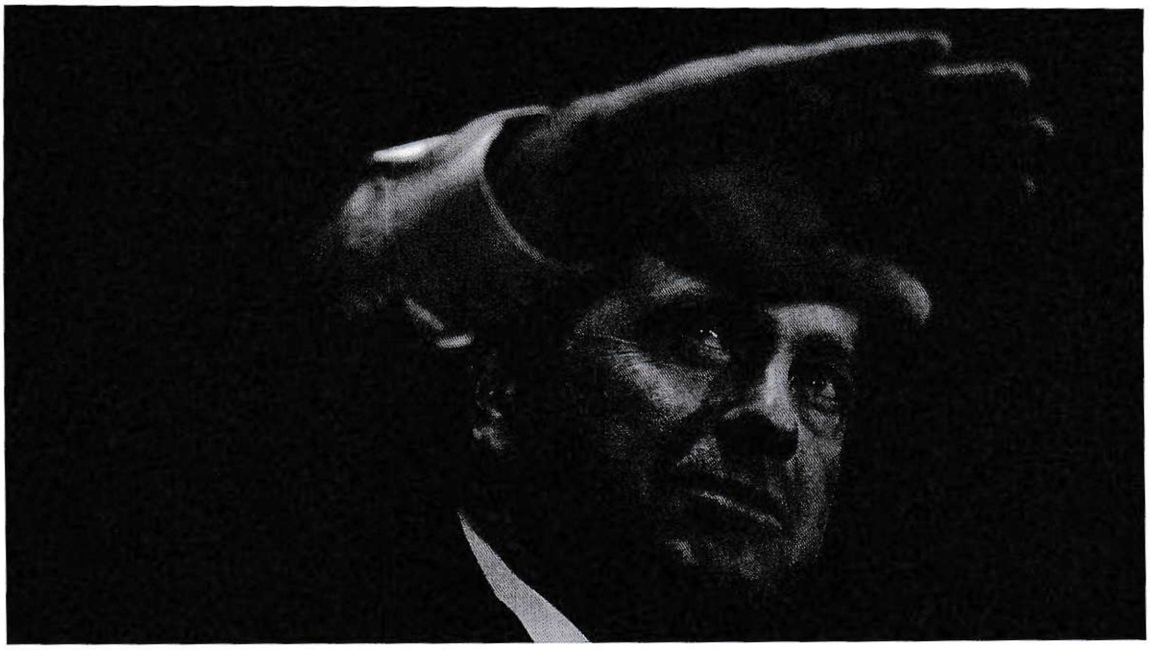
The SEC wants companies and investors to say more about how and when companies should report their numbers



Chip Somodevilla/Getty Images
Jay Clayton is chairman of the Securities and Exchange Commission.

The Securities and Exchange Commission held a two-part public panel discussion on Thursday to ask again if reporting earnings quarterly promotes "short-termism" — an unhealthy focus on short-term results to the detriment of long-term performance.

Speakers from the investor and public company realms — including representatives from Fidelity Investments and Vanguard Group as well as new public company Uber Technologies Inc. UBER, -3.99% and Nasdaq NDAQ, +6.10% , among several others — discussed the nature, timing, format and frequency of periodic reporting, as well as the relationship between the quarterly and annual SEC filings and the earnings releases they announce to the market, often ahead of official reports.

The SEC had issued a request for public comment on several ideas and potential suggestions as well as open issues last December, and is reopening its solicitation after it originally closed in March.

The SEC's ongoing initiative is focused on simplifying the production and dissemination of financial information and "relieving any burdens associated with investors' efforts to compare an earnings release and Form 10-Q to identify information that is new or different," according to the SEC's request for comment.

Some companies issue their earnings release before filing their 10-Q with the SEC. MarketWatch has reported, based on academic research, that nearly 70% of public companies are providing fourth-quarter and year-end results up to 16 days before the finalization of the annual audit and filing of the 10-K with the SEC. That can lead to undue pressure on auditors, say the researchers, to avoid any changes to their opinion that contradict the earlier earnings release.

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One commenter responded to the SEC's questions by suggesting companies should file their 10-Q simultaneously with any earnings release, reasoning that this would "help investors to be more informed and better able to address issues with management on earnings calls." The SEC said that other commenters suggested requiring the 10-Q to be filed before earnings releases and earnings calls to allow analysts to digest U.S. GAAP disclosures before receiving earnings release information, which frequently includes non-U.S. GAAP disclosures that don't follow required accounting practices.

The SEC is requesting additional comment on how it can "alleviate burdens related to Form 10-Q reporting while maintaining investor protection." For example, the SEC would like to know if it should provide an option for companies to use earnings releases to satisfy the core financial disclosure requirements of Form 10-Q.

Of course, even though the SEC also wants to help companies reduce the time and money they spend complying with quarterly reporting requirements, investors still have to be protected. The ultimate objective is to understand the impact of the SEC's current requirements on corporate decision making and strategic thinking, "including whether it fosters an inefficient outlook among registrants and market participants by focusing on short-term results," the SEC says.

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Academic research on short-termism also sometimes supports eliminating quarterly reporting.

Thursday's panels also talked about how many companies still provide "forward-looking earnings guidance" — detail about management's expectations of the company's future financial performance — in the earnings release or on the quarterly earnings call.

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Francine McKenna is a MarketWatch reporter based in Washington, covering financial regulation and legislation from a transparency perspective. She has written about accounting, audit, fraud and corporate governance for publications including