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CFA Trending Topics

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Quarterly vs. semi-annual reporting

Key takeaways:

- The quarterly versus semi-annual reporting debate has moved back into headlines.
- The mixed evidence on the relative costs and benefits of the frequency of reporting could lead the SEC to favor either side or to adopt one of a range of compromises such as permitting skinnier quarterly disclosure with a more detailed semiannual report.

In August, President Trump tweeted that he would ask the SEC to explore moving to semiannual earnings reporting. The topic is not a new area of analysis for the SEC and Corporations' voluntary quarterly earnings guidance has also recently garnered attention (with some criticizing this practice while still supporting quarterly earnings reports).

Critics and proponents of quarterly reporting both claim their positions enhance shareholder value. Critics say a semi-annual system allows managers to focus more on long-term results and reduces reporting costs. Proponents say a quarterly system enables investors to better oversee managers, reduces scope for insider trading, and lowers the cost of capital for reporting firms (thereby promoting investment) through more regular disclosure and more accurate stock prices.

In the OECD, nine countries require quarterly reporting while the rest (26 countries, including the 23 members of the European Commission, which fully eliminated mandatory quarterly reporting in 2013) do not. The world's three largest economies, the U.S., China, and Japan, all require quarterly reporting, with Japan having adopted quarterly reporting in 2008.

The academic evidence on costs and benefits is mixed:

- Research looking at non-U.S. firms with semiannual reporting found that their stock price overreacted to information in US peers' quarterly reporting in the absence of information from the non-U.S. firm in the first and third quarters.[1]
- Research on the impact of shifts from mandatory annual, to semi-annual, to quarterly reporting for U.S. public companies from 1950-1970 found a 1.5-1.9% reduction in investment in fixed assets attributable to more frequent reporting, with more pronounced impacts in industries where investments took longer to pay off.[2]
- However, research on the UK requirement of qualitative quarterly reports from 2007-2014 found no significant impact on investment, but did find 7% of affected firms had an increase in analyst coverage associated with the more frequent mandatory reporting.[3]

The SEC will have their task cut out for them as they re-evaluate the merits of quarterly vs. semi-annual reporting.

[1] Arif and DeGeorge January 2018
[2] Kraft, Vashishtha and Venkatachalam April 2017
[3] Nallaredy Pozen Rajgopal October 2016