PUBLIC POSITION STATEMENT: QUARTERLY REPORTING AND QUARTERLY EARNINGS GUIDANCE

In March, the Investment Association launched its Productivity Action Plan to help boost UK productivity through long-term investment. A key focus for the Productivity Action Plan is to improve company reporting by encouraging a greater focus on the company's long-term strategic drivers. This will help enhance efficient capital allocation by our members and allow them to support companies as they implement their long-term strategies.

This Public Position Statement provides our view on Interim Management Statements, more commonly referred to as 'quarterly reports', and the issuance of quarterly earnings guidance. It calls for companies to cease reporting quarterly and refocus reporting on a broader range of strategic issues.

BACKGROUND

In response to the 2012 Kay Review's recommendation to end quarterly reporting, the UK Government supported the European Commission proposal to amend the Transparency Directive to remove mandatory quarterly reporting requirements. The amending Directive came into force in November 2013 and was enacted into UK law in May 2014. The FCA updated the Disclosure and Transparency rules in December 2014. Since the removal of the mandatory requirement, 30 FTSE 100 companies and 139 FTSE 250 companies have stopped publishing quarterly reports.[1]

OUR POSITION

During the development of the Productivity Action Plan, our members widely referred to quarterly reporting as a distraction that shifted company resources away from long-term strategic considerations. In particular, members expressed concern at the potential for the practice to promote myopic behaviour by senior management by channelling its focus on short-term fluctuations in performance - resulting in the risk of it managing the market, rather than managing the business.

In certain environments management may elect to delay discretionary investment in research and development, physical capital, and training if the company's ability to meet its short-term performance targets is at risk. The propensity to engage in such behaviour can be more pronounced when market pressure is high, or when management's own performance is closely tied to the company's short-term results. But not only are these key drivers in generating greater productivity and raising living standards, they are important elements in ensuring sustainable, long term value creation which is in the interests of companies and shareholders alike.

Aside from the cost and administrative burden of preparing and disseminating quarterly reports, their value to investors is questionable. When evaluating a company, our members need to be able to assess the health of the business, its growth potential, and the long-

[1] As at 5 October 2016.

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term sustainability of its earnings. The additional resource required to analyse quarterly reports when they are often largely formulaic, or contain excessive or redundant information, tends to impact on our member's ability to do this, and can serve to undermine the trust and confidence between companies and their shareholders which is so essential to long-term value creation.

In this regard, our members value the communication they have with management teams highly. Reducing the time spent on reporting that adds little to the business does not, in our view, lead to a deterioration in that relationship. On the contrary, we think it can lead to a better articulation overall of business strategies, market dynamics, and innovation drivers, which are linked to the key metrics that drive business performance and long-term shareholder value.

Additionally, the risk that management may delay a negative disclosure to include it in a later results announcement is largely offset by the FCA requiring companies to announce price-sensitive information to the market as soon as possible. Our perspective on quarterly reporting is informed by our confidence that in the UK price-sensitive information is indeed disclosed as promptly as it should be.

We therefore call for companies to cease reporting quarterly and refocus reporting on a broader range of strategic issues. Companies should focus on improvements in reporting on the long-term drivers of sustainable value creation and shift resources towards improved reporting on long-term strategy and capital management.

We encourage companies to review how their current reporting cycle is adding value, and to make necessary amendments to ensure it is appropriately focused on the long-term drivers of productive growth within the business. For those companies that believe it is important to continue to report quarterly, either due to competitive market pressures or shorter market cycles, we ask that they publicly explain this position, and how it is relevant to the achievement of their long-term strategy.

ROUNDTABLE DISCUSSIONS

In the coming months, the Investment Association will be hosting a series of round tables to discuss the benefits and challenges associated with ending quarterly reporting. This will also include an opportunity to discuss possible improvements that could be made in reporting on the long-term drivers that contribute to sustainable value creation. Interested parties should email productivity@theia.org to register their interest in attending. Following these round tables, we will issue a guidance document on the issues raised.

MONITORING COMPANY APPROACHES

The Investment Association's Institutional Voting Information Service (IVIS) will now monitor each company's approach to reporting. IVIS will outline to our members which companies continue to report on a quarterly basis and provide those company's public explanations.