Norges Bank Investment Management

1 | 2025

Corporate reporting frequency and long-term value creation

Asset manager perspective

This paper discusses the impact of high-frequency corporate reporting on long-term value creation from an asset manager's perspective. We argue that mandatory quarterly reporting, and the associated pressure on management to meet earnings guidance, can lead to short-term decision-making. This hinders sustainable growth and innovation, and may deter companies from accessing public markets. The paper proposes a shift towards higher quality semi-annual reporting, supplemented by continuous disclosure of material information, to better align management and investor behaviour with long-term investment and value creation.

The paper also highlights the benefits of high-quality corporate reporting in providing transparency, enhancing investor decision-making, and supporting companies' long-term strategic planning. It examines various jurisdictional approaches to reporting frequency, noting a trend towards deregulation of quarterly reporting to encourage long-termism and reduce reporting burden. It explores how optimised reporting frequency can benefit management decision-making, particularly in R&D-intensive industries, support institutional investors' engagement strategies, and potentially encourage more companies to list and remain public. The paper concludes with recommendations for optimising reporting frequency, alongside high-quality corporate disclosures, to achieve sustainable financial outcomes for companies, investors, and the broader economy.

Date 21/01/2025

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ISSN 2387-6255

Introduction

Capital markets play a critical role in mobilising and allocating long-term funds to facilitate capital formation and drive employment and economic development. The most dynamic industries projected to deliver significant economic growth over the next decades require long-term managerial mindsets and investment horizons given their significant capital expenditures and R&D spending needs. To best serve companies, investors and the wider economy, long-termism should be actively cultivated in capital markets.

Well-functioning capital markets are characterised by transparency, effective corporate governance and accountability, and underpinned by robust regulatory frameworks. High quality corporate reporting provides accountability and transparency, limiting information asymmetry. This enables informed decision-making, orderly price discovery, healthy liquidity, and protection of minority and retail investors. Investors use disclosures of material information about companies for their investment decisions, risk management processes and stewardship activities.

Regulators and stock exchanges have implemented mandatory periodic reporting and ongoing disclosure requirements to meet investors' information needs, based on globally accepted financial accounting and sustainability-related disclosure standards.[i] In addition to mandatory semi-annual and annual reporting, quarterly reporting is either a requirement in some jurisdictions or common voluntary practice in others.

However, frequent mandatory reporting may not be the most effective nor the only means to provide timely, transparent and complete information. Quarterly reporting, and the focus on meeting earnings guidance, can lead to short-term decision making at the expense of long-term investment, value creation and sustainable development. High regulatory reporting burdens may also deter companies from coming to market earlier in their growth phase to access lower cost, longer-term funding. In recognition of these issues, some jurisdictions have moved away from mandatory quarterly reporting.

In this paper, we will outline our perspective on optimising the form and frequency of reporting to promote long-termism in capital markets. Regular semi-annual reporting, supplemented with continuous updates of material information, should adequately meet disclosure requirements. Optimised financial reporting can provide reliable, transparent and timely disclosures of material company information, aiding investors in decision-making, risk management and stewardship. This helps to maximise sustainable financial outcomes for companies, investors and the broader economy over the long term.

[i] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures

For this approach to succeed, we need fundamental changes in how companies and investors act, backed by strong regulatory support. From an asset manager's perspective, we advocate that companies focus on long-term strategic planning, good corporate culture, innovation and investment, and provide high quality corporate reports. Investors can use these improved reports with enhanced stewardship engagement activities to support companies in creating long-term value. These actions must be underpinned by the provision and enforcement of adequate and proportionate disclosure requirements and a move away from mandatory quarterly reporting. Regulators should provide guidance to companies on decision-useful voluntary disclosures, and clarity on rules on sharing forward-looking information.

Impact of quarterly reporting cycle on capital markets

Some capital markets participants see quarterly financial reporting to be necessary for reducing insider trading risk and protecting investors.[1, 2, 3] Higher reporting frequency has been associated with lower information asymmetry.[4]

However, quarterly reporting has also been identified as one of the main drivers and enablers of short-term decision making.[5, 6] CEOs and CFOs have often cited the pressure to meet earnings guidance, rather than quarterly reporting itself, as the cause of this short-termism.[7] Interestingly, the provision of earnings guidance has significantly increased after the introduction of mandatory quarterly reporting.[8]

The evidence on the impacts of quarterly financial reporting is mixed, and there is no global consensus on the optimal reporting frequency. Nonetheless, there is widespread concern about growing short-termism in capital markets, with the risk of prioritising short-term profits and meeting analyst forecasts over long-term investment, value creation and sustainable development. [9, 10, 11, 12, 13]

Short termism can undermine the benefits of being publicly listed, and discourage companies with longer-term strategies from going or remaining public. [14, 11] Executives feel increasing pressure to deliver short term results, and this, along with a high regulatory reporting burden, may have contributed to the significant decline in the number of listed companies over the past two decades.[10, 15] This trend limits investors' ability to diversify risks and achieve their target returns in public markets, while reducing the range of financing options for companies.

Jurisdictional approaches to reporting frequency

Jurisdictions are moving away from mandatory quarterly reporting to discourage short-term performance management, encourage long-term investment, and reduce the compliance burden for listed entities.[16, 17] Over the last decade, several jurisdictions have deregulated quarterly reporting, aligning with others that consider mandatory semi-annual and annual financial reporting, along with continuous disclosure obligations, sufficient for timely information[ii]. They rely on existing enforcement systems to handle fraud and agency conflicts under mandatory disclosure regulation, offering investors access to penalties and remedies.

These jurisdictions have varied views on voluntary quarterly updates. The UK states it will not provide any guidance, whilst Singapore encourages companies to provide updates on their long-term business strategy but leaves them to determine the form and content. On the other end of the spectrum, the EU has explored options to discourage or prohibit voluntary earnings guidance and quarterly reporting for listed companies to foster long-term shareholder engagement and extended shareholding periods.[18]

Some jurisdictions without mandatory quarterly reporting have added risk-based safeguards for transparency and investor protection. Australia requires quarterly reports for mining and oil and gas production and exploration activities.[19] Singapore mandates quarterly reporting for companies with modified audit opinions or material uncertainties related to going concern, signalling higher risk levels to investors.[20]

Conversely, some jurisdictions maintain mandatory quarterly reporting due to concerns about investor information needs and insider trading risk. The US decided against removing quarterly reporting requirements, and Japan is maintaining quarterly reporting due to concerns about the current quality of disclosures and reputational risk from reduced disclosures.[21, 22]

Use of financial reports by stakeholders

A wide range of participants across the financial ecosystem use interim financial reports, including public and private companies, investors with different objectives, regulators enforcing rules, exchanges facilitating liquidity and price discovery, asset managers, brokers and research firms conducting fundamental analysis, market makers offering liquidity and contributing to price discovery, and news organisations reporting on company results. Companies use the information, typically sales, gross margins and capex, to benchmark performance against peers.

[ii] EU, UK, Singapore removed mandatory quarterly reporting, which aligns them with Australia and Hong Kong

These participants have different timeframes and risk appetites, even within the investor category. The market clearing price is influenced by the relative mix of short-term and long-term investors aiming to meet their objectives within their time horizons.

Some short-horizon investors can have a negative influence on investment, long-term value creation and economic growth. Increased ownership by short-horizon investors has been linked to lower investment in research and development.[23] Increased pressure from such investors can lead to companies pursuing short-term profit targets and share price appreciation rather than long-term value creation.[24]

Advantages of optimised reporting frequency

In this section, we provide the asset manager's perspective on the advantages of lower frequency, higher quality reporting on managerial strategy and resource allocation, investor horizons, growth in capital markets and the broader economy.

Longer-term focus for management
Removing mandatory quarterly reporting can reduce short-term earnings management, and allow for more focus on strategic goals, culture, investment, and innovation. [25, 26, 27, 28, 29] Less pressure to meet short-term analyst forecasts can enable better longer-term strategic planning and balance towards long-horizon R&D projects, benefiting companies and investors.

Companies found that a lower frequency reporting regime allows more time for board discussions and focus on strategic goals.[16] Shifting from short term earnings management to long-term value creation can be supported by longer lock-in periods for compensation, aligning CEO actions with long-term strategy and shareholder interests. These incentives can replace shorter-term performance share units that may lead to suboptimal decisions.[30]

The time and monetary cost spent on preparing mandatory quarterly reports is not insignificant.[31] Management can redirect resources away from quarterly reporting to develop more insightful and higher quality disclosures that address investors' information gaps, articulate progress against long-term strategic plans, and integrate emerging and longer-term risks such as climate change. Investors can use these enhanced disclosures to analyse the risks and opportunities impacting companies' prospects over different time horizons.

For example, investors have voiced concerns that information about climate-related risks in financial statements was insufficient and inconsistent with material information disclosed in other general purpose financial reports.[iii] Management can produce more holistic management

[iii] Investors expressed a strong demand for IASB to improve the reporting of climate-related risks in financial statements during IASB's Third Agenda Consultation in 2021.

commentary that supports connectivity, in line with the upcoming revised guidance from IASB.[iv] Enhancing the quality of semi-annual and annual financial reporting helps investors gain confidence in a company's long term value creation potential.

R&D and capital expenditures for high growth industries
High growth industries that can drive future economic growth require long-term managerial mindsets given their significant capital expenditures and R&D spending needs.[v] Industries such as technology, pharmaceuticals and renewable energy, that require significant upfront investment and extended time horizons to realise returns can be particularly sensitive to short-term performance monitoring and managerial mindsets. While long-term transformational R&D to develop entirely new products and technologies has historically delivered the best returns, the focus on short-term projects and deliverables has reduced R&D productivity and returns.[32, 33]

Longer-term focus for investors
Long-term investors can complement deeper fundamental insights gained from higher quality reporting with enhanced engagement with portfolio companies. This is especially useful during transient periods when companies may be pressured to meet short-term profit targets at the expense of long-term value creation.[34, 35]

Institutional investors, such as pension funds and sovereign wealth funds with patient capital, can support management in realising a company's long-term growth potential. Their sector expertise allows them to take contrarian views and invest in companies that may be less profitable in the short-term but offer long-term compounding potential.

Potential for founders of private companies
In our Asset Manager Perspective on the Listings Ecosystem, we proposed possible actions to be taken by different stakeholders to address the decline in the number of company listings.[36] Recent experience suggests that lower mandatory reporting frequency may be an additional lever to boost IPOs. Earlier market entry allows companies to access lower cost, longer-term funding from a broader investor base during their growth phase. This also benefits both public market retail and institutional investors through increased participation in the companies' earnings growth potential. In addition, pre-IPO investors can exit and reinvest sooner in other growth opportunities in line with their higher risk appetite.

Many regulators and exchanges recognise the need to support earlier public market entry. In jurisdictions which continue to require mandatory quarterly reporting, size-based reliefs are often provided to smaller and

[iv] IASB will publish an updated IFRS Practice Statement 1 Management Commentary in H12025, in response to investors' demand for better information on value creation and cash flows.

[v] Between 2005 and 2020, 12 high growth dynamic industries (including semiconductors, cloud services, EVs and software) saw a 16% CAGR in market capitalisation and increased their share of total economic profit from 9% to 49%. These R&D driven industries allocated 10% of revenues to R&D in 2020, double that of other industries. McKinsey Global Institute (2024) The Next Big Areas of Competition

growth companies, acknowledging their relatively higher compliance burden and need for adaptation to public markets.[vi, 37]

Transparency and impact on information asymmetry

There are concerns that reduced financial reporting frequency may lead to market volatility and mispricing, as investors may overreact to peer companies' earnings news during non-reporting periods. This mispricing tends to correct itself at the next earnings announcement, causing heightened volatility. [38]

The risk of information loss can be mitigated through streamlined voluntary reporting and better engagement between companies and shareholders. Voluntary updates on interim business performance and shareholder stewardship engagements with portfolio companies can address concerns about information asymmetry and agency conflicts.[39, 40, 41] There is also no conclusive evidence that removing quarterly reporting causes a reduction in analyst coverage. [16, 8]

To manage the transition away from quarterly reporting, jurisdictions have used different approaches. These include gradual deregulation of quarterly reporting and encouraging companies to provide voluntary quarterly updates that contain decision-useful information.[42, 43, 16] Regulators have provided guidance on which disclosure items are the most useful for both voluntary and ongoing disclosures.[44] Regulators have considered offering safe harbour provisions for forward-looking information, particularly regarding emerging risks such as climate change to promote disclosure of long-term information.[45, 46]

Conclusion

Well-functioning capital markets rely on orderly price discovery, market liquidity, and investor protection. A nuanced approach considering jurisdiction-specific factors may be more effective in addressing short-termism through the lens of reporting form and frequency, realising the benefits of long-termism. This note presents an asset manager's perspective on balancing reporting frequency with transparent, high quality corporate reporting to maximise sustainable, financial benefits for companies, investors and the wider economy.

[vi] For example, Nasdaq (First North Growth Market) and US SEC scaled disclosures (no Form 10-Q) for smaller public companies

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