THE CASE FOR QUARTERLY AND ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORTING

By Mohini Singh, ACA & Sandra Peters, CPA, CFA
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EXECUTIVE SUMMARY

Debate has been ongoing for some time now over whether reducing the periodic reporting requirements for companies from quarterly to semiannually could save them time and money. Some people have suggested that reducing the frequency of financial reporting would dissuade short-termism, as companies would no longer focus on meeting analysts’ expectations on a quarterly basis at the expense of long-term performance. This issue has also been debated in many regions of the world. More recently, the US Securities and Exchange Commission (SEC) requested public comment on this topic. For this reason, CFA Institute conducted a survey of its global membership on the topic as well as a roundtable discussion. This report contains our key findings.

Investors Strongly Support Quarterly Reporting

The majority of survey respondents state that investors heavily rely on earnings releases because they are generally issued before quarterly financial reports. Respondents, however, indicate that quarterly reports remain more important to investors than earnings releases. These quarterly reports provide a structured information set that follows accounting standards and regulatory guidelines and include incremental financial statement disclosures and management discussion and analysis. In addition, quarterly reports offer greater investor protections as they are certified by the officers of the company, subject companies to greater legal liability, and are reviewed by company auditors.

As for timing, the majority of respondents believe quarterly reports and earnings releases should be provided simultaneously because this would reduce the significant amount of time spent reconciling the contents of earnings releases with those of quarterly reports as well as ensure that investors can ask better questions during earnings calls by having access to the more detailed information contained in the quarterly report. Roundtable participants agree with these positions.

No Support for Alternative Reporting Models or Reduced Reporting Frequency

Survey respondents and roundtable participants are not supportive of the other proposals in the SEC’s Quarterly Reporting Request for Comment, including the following:

- allowing companies that issue earnings releases the option of using the earnings release to satisfy the core financial disclosures of the quarterly report, or
- allowing reporting companies, or certain classes of reporting companies, flexibility as to the frequency of their periodic reporting.
Investors feel that these proposals would reduce the effectiveness of reporting by reducing comparability, decreasing transparency, and increasing complexity. It would make it more difficult for investors to locate information. Furthermore, investors may have less information that has been reviewed by auditors, and it may be challenging for investors to discern which information has been reviewed by auditors and which has not. Permitting earnings releases to serve as the primary document would be confusing to investors at best and potentially misleading at worst. Investors also believe that reducing reporting frequency would not affect long-term investment but would likely increase stock price volatility.

If small or private companies were exempted from quarterly reporting, investors in those companies would be particularly disadvantaged. Investors in such companies do not require less information. In fact, smaller reporting companies, nonaccelerated filers, and emerging growth companies are the very companies that need quarterly reporting as they receive less media attention and have little or no coverage by research providers. High-growth firms with a shorter track record and fewer investors scrutinizing operations are the exact types of firms for whom things can go wrong quickly. Investors in such companies require more information, not less.

**Earnings Guidance**

The majority of respondents indicate that companies should not cease releasing quarterly guidance. In a 2008 survey, we asked CFA Institute members whether they favored quarterly or yearly earnings guidance. Investors responded that they preferred annual estimates over quarterly estimates. The survey and roundtable participants agree that investors do use quarterly earnings estimates management guidance because it is another data point that provides context to the marketplace. Investors use yearly estimates more often, however, and prefer broader measurements of corporate performance rather than quarterly earnings hits or misses.

Accordingly, the issue with short-termism doesn’t seem to be quarterly reporting or guidance per se, but rather the need for long-term guidance or insight into the value generating aspects of the business. As such, the question of quarterly reporting or guidance (quarterly or annual) really may be one of simply more effective and integrated communication tools regarding long-term strategy and value creation. Investors passionately debate the merits and potentially negative consequences of guidance. Irrespective of the periodicity of or support for guidance, investors clearly want the SEC to focus companies on the communication of long-term growth prospects over reducing the periodicity of the reporting of quarterly results.

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1 Please see “Previously Expressed Positions” below.
Focus on Incentive Structures
CFA Institute has long contended that when companies focus on long-term strategy, they are looking at a time horizon of three to five years or longer, not six months. Accordingly, extending the reporting period from three to six months would have little impact. We believe that a better approach to deterring short-termism would be to focus on companies’ incentive structures. Companies interested in encouraging a long-term view should consider adopting five-year performance periods in their incentive plans. In addition to incentives, general corporate leadership, tone at the top and company culture are important contributors to long vs. short-termism.

Support for Environmental, Society, and Governance Reporting
When it comes to environmental, society, and governance reporting, survey respondents and roundtable participants say that they incorporate governance factors into their investment analysis to a greater extent than they incorporate environmental and social factors. Investors, however, note that ESG means different things to different people. Hence, clear definitions of the terms and related metrics are needed. They also believe specific ESG and sustainability disclosures should be a regulatory requirement for public companies and that securities regulators should either develop ESG disclosure standards or support an independent standard setter (i.e., a single, global standards setter in this field) to develop such standards.
Conclusion

CFA Institute believes that these results are in line with its long-held position that fully functioning capital markets rely on complete, timely, and accurate information. The provision of such information through a consistent reporting system raises investor confidence, which ultimately strengthens the capital markets. We also believe that companies that provide such information are likely to benefit from a lower cost of capital as investors are better informed and more confident in their decisions.

We believe all companies with any type of securities listed on regulated markets should be required to publish financial information quarterly. Timely and accurate financial information is the lifeblood of financial markets. Quarterly reporting of financial information creates a level playing field for access to financial information between insiders and outside investors and shareowners and, ultimately, promotes greater investor confidence and improved capital allocation. Semiannual reporting is likely, we believe, to increase stock price volatility around earnings reports as there is greater likelihood of earnings surprises. For these reasons, CFA Institute does not support a move to semiannual reporting.

Sacrificing transparency could lead to other problems, such as placing some investors at a greater information disadvantage, increasing the risk of insider trading as a result of information asymmetry, and allowing stock prices to diverge from fundamentals. Furthermore, quarterly reports not only inform investors of earnings but also provide updates of risks.

In a world in which new technologies are changing the use, creation, and timeliness of data, it seems counterproductive for regulators to consider reducing the transmission of information to investors. Such a change would harm rather than help investors in a multitude of ways. Furthermore, it would increase the use of alternative data sources by sophisticated investors to estimate company revenues and costs to anticipate company profits and take investment positions in advance of formal earnings releases. We think regulators should consider how technology can be better deployed to enhance the quality, timeliness, and cost effectiveness of company reporting rather than simply reducing the reporting requirements.
INTRODUCTION

Debate has been ongoing for some time now over whether or not reducing the periodic reporting requirements for companies from quarterly to semiannually could save time and money. Questions also persist as to whether reducing requirements would dissuade short-termism, as companies would no longer focus on meeting analysts’ expectations on a quarterly basis at the expense of long-term thinking. This issue has been debated in many regions of the world.

More recently, the US Securities and Exchange Commission (SEC) requested public comment about how it could enhance, or maintain, the investor protection attributes of periodic disclosures while also reducing administrative and other burdens on reporting companies associated with quarterly reporting. Specifically, the SEC proposal looked at (a) the content and timing of earnings releases versus quarterly reports, (b) the efficiency of quarterly reporting, and (c) the frequency of quarterly reporting, including its impact on corporate and investment decision making.

To address this topic, CFA Institute conducted a survey of its global membership. We surveyed our analysts and portfolio managers globally because our members invest globally, including in US companies. Securities regulators in various jurisdictions are considering similar questions about quarterly reporting. CFA Institute also hosted a roundtable discussion addressing these issues in further detail. The results of the member survey and the roundtable discussion are included in this report, which will be shared with securities regulators around the world.1

1 We also analyzed regional differences in survey responses. While we did not find many differences between regional and global results, the paper notes where regional differences do exist.
QUARTERLY REPORTING WORKS VERY WELL, THANK YOU

Sandra Peters

There has long been a debate as to whether quarterly reporting is the appropriate interval. Is it too short? And does this time between reports promote short term thinking — and actions — that undermine long term performance and growth?

Promoting long term thinking is a noble idea. The return in terms of jobs, wealth creation and GDP growth could be a multiple of the results that are earned under the current reporting regime. Millions upon millions would benefit.

No Thank You

But as noble as this idea may be, there is almost no support for it among investment professionals around the globe who rely on financial reporting to manage assets. This conclusion is based on a survey of our ~160,000 members that was prompted in part by request for comment on this topic by the Securities and Exchange Commission.

Specifically with respect to earnings releases:

- The survey found 84% of respondents rely heavily on quarterly earnings releases because these reports are generally issued before quarterly reports.

- The survey found 62% of respondents feel that meaningful differences exist in the information provided in earnings releases versus that provided in quarterly reports.

- According to 76% of respondents, earnings releases generally include more non-GAAP measures than quarterly reports.
And with respect to quarterly reports:

- Half of the respondents indicate that quarterly reports are more important to investors than earnings releases.

- Among respondents, 72% state quarterly reports are more useful to investors because they provide structured information.

- The survey found 91% feel quarterly reports include incremental financial statement disclosures and management discussion and analysis.

- Three quarters, or 75% of respondents feel the incremental information compared with an earnings release can affect views about a company.

It’s difficult to conclude that investors are looking for changes in the way companies report. Further, we detected no regional differences. Worldwide, investors are expressing comfort with the way things are. Nor are they sanguine on the SEC’s so called “Supplemental Approach,” where a company would use its quarterly report to supplement its earnings release. Eighty two percent of investors felt this approach would cause investors new difficulties.

Where investors did feel frequency could be cut was with respect to guidance. A majority, albeit a slim one, 52%, felt companies should stop offering quarterly guidance because it creates an undue focus on short term results. Forty nine percent felt companies should continue to issue quarterly guidance. These figures are largely unchanged from our 2008 survey where 53% of respondents were against quarterly guidance and 42% for.

**Our Position**

In a world in which new technologies are changing the use, creation, and timeliness of data, it seems antithetical for regulators to consider slowing down the transmission of information to investors. Timely and accurate financial information is the lifeblood of the capital markets, and the world’s economy. Quarterly financial reporting creates a level playing field for all market constituents including the buy side, sell side, individual shareholders, regulators as well as policy makers and for this reason, CFA Institute does not agree with a move to semiannual reporting.

Promoting long-term thinking among the executives who lead public companies is an idea that is always in vogue. While the SEC’s ideas on the subject did not find favor among investors, they are nonetheless to be applauded for bringing to the fore, and idea that must be continuously evaluated.
The SEC proposal sought comment on the relative use by investors of earnings releases versus quarterly reports. Earnings releases are generally furnished to the SEC (via Form 8-K) and quarterly reports are filed with the SEC (via Form 10-Q).²

Earnings Releases

According to the survey results, 84% of respondents³ state that investors heavily rely on earnings releases because these reports are generally released before quarterly reports (chart 1). But 55% of respondents add that earnings releases do not contain information that is more useful than that contained in quarterly reports, and furthermore, 62% state that meaningful differences exist in the information provided in earnings releases versus that provided in quarterly reports.

In addition, respondents feel that the information presented in earnings releases may be skewed or slanted by management for the following reasons (chart 2):

- According to 76% of respondents, earnings releases generally include more non-GAAP measures than quarterly reports and, therefore, can present a more positive perspective on a company’s results than quarterly reports; and

- Furthermore, 71% believe that the content of earnings releases is provided more in response to management’s communication objectives and priorities rather than in response to investor requests for information.

Some 62% of respondents also feel that the content of earnings releases should be standardized (chart 3). This may help contain the extent to which information is slanted by management in one direction or another. Our roundtable participants, however, do not agree with this position. They feel management should be free to communicate what it wishes and are interested in hearing managements’ view.

Finally, 67% of respondents say that earnings releases should be tagged and machine-readable (chart 3). Roundtable participants agree. CFA Institute has long been advocating for the tagging of data in the earnings release because it allows investors to consume the information more effectively. Tagging the earnings release, for example, allows users to export data from the earnings release directly into an Excel-based financial model. Users then can perform side-by-side comparisons of preliminary income statements against previously reported numbers, without having to manually input the data. This simplifies the process for analysts and reduces errors and the time spent pulling information manually for multiple companies.

² Furnishing earnings releases carries less legal liability than filing quarterly reports. Although company auditors generally don’t have any formal association with earnings releases, they do review quarterly reports. Other differences between the two reports are that for the vast majority of companies, earnings releases are completed in advance of the publication of quarterly reports. Finally, quarterly reports are tagged and machine-readable, whereas earnings releases are not.

³ All of the percentages given in this report are an aggregation of either “agree and strongly agree” or “disagree and strongly disagree.”
Chart 1. Earnings Releases

- **Statement**: State that earnings releases are heavily relied upon by investors because they are released first.
  - **Agreement**:
    - Strongly Agree: 84%
    - Agree: 43%
    - Disagree: 5%
    - Strongly Disagree: 2%
    - No Opinion: 9%
  - **Sample Size**: N=707

- **Statement**: Disagree that earnings releases are more heavily relied upon by investors than quarterly reports because the information they contain is more useful.
  - **Agreement**:
    - Strongly Agree: 55%
    - Agree: 45%
    - Disagree: 10%
    - Strongly Disagree: 9%
    - No Opinion: 11%
  - **Sample Size**: N=708

- **Statement**: State that meaningful differences exist in the information provided in earnings releases versus information provided in quarterly reports.
  - **Agreement**:
    - Strongly Agree: 62%
    - Agree: 41%
    - Disagree: 13%
    - Strongly Disagree: 2%
    - No Opinion: 23%
  - **Sample Size**: N=706

Chart 2. Earnings Releases

- **Statement**: Say that earnings releases generally include more non-GAAP measures than quarterly reports and therefore, can present a more positive perspective on a company's results than quarterly reports.
  - **Agreement**:
    - Strongly Agree: 76%
    - Agree: 45%
    - Disagree: 11%
    - Strongly Disagree: 10%
    - No Opinion: 3%
  - **Sample Size**: N=707

- **Statement**: Believe that the content of earnings releases is provided more in response to management's communication objectives and priorities rather than in response to investor requests for information.
  - **Agreement**:
    - Strongly Agree: 71%
    - Agree: 48%
    - Disagree: 17%
    - Strongly Disagree: 9%
    - No Opinion: 3%
  - **Sample Size**: N=706
Quarterly Reports

Half of the respondents indicate that quarterly reports are more important to investors than earnings releases, whereas 37% did not feel they are more important (chart 4). Respondents state quarterly reports are more useful to investors because they (chart 5):

- provide a structured information set that follows accounting standards and regulatory guidelines (72% of respondents);
- include incremental financial statement disclosures and management discussion and analysis (91%); and
- offer incremental information that compared with information in an earnings release can affect or change views about a company (75%).

In addition, quarterly reports offer greater investor protections because they

- are certified by the officers of the company and subject companies to greater legal liability (65%) (chart 6); and
- are reviewed by company auditors (71%) (chart 7).
Chart 4. Quarterly Reports

50% of respondents indicate that quarterly reports are more important to investors than earnings releases.

N=705

Chart 5. Quarterly Reports

- 91% state that quarterly reports are important to investors because they include incremental financial statement disclosures and management discussion and analysis.
- 72% state that quarterly reports are more useful to investors than earnings releases because they provide a structured information set that follows accounting standards and regulatory guidelines.
- 75% state that the incremental information provided in a quarterly report as compared to the information in an earnings release has, at times, impacted or changed my views about a company.

N=705 N=703 N=705
65% agree that quarterly reports are more important to investors than earnings releases because they are certified by the officers of the company and subject companies to greater legal liability related to investor protection.

Chart 6. Quarterly Reports

N=706

Chart 7. Auditor Involvement

71% say that quarterly reports are very important to investors because they are reviewed by company auditors.

54% state that company auditors should review earnings releases and provide the same level of assurance on them as they do on quarterly reports.

N=705
N=703
Roundtable participants agree. They feel that the audit review is essential and that it is particularly important for auditors to review the differences between the earnings release and the quarterly report.

The SEC proposal asks a number of questions about the uses of the earnings release and quarterly report, including whether investors and other market participants benefit from having two sources of historical quarterly financial information, when only one is required. When much of the information is disclosed in the earnings release, “is the Form 10-Q still useful?” For the reasons just noted, 85% of respondents say that quarterly reports should not be abandoned in favor of companies providing only earnings releases (chart 8).

Roundtable participants were strongly aligned with this view. Indeed, 54% of respondents went further to state that company auditors should review earnings releases and provide the same level of assurance as they do on quarterly reports (chart 7).
The aforementioned findings are in line with a survey we administered in 2015 to readers of CFA Institute Financial NewsBrief to gauge which types of earnings disclosure had the most importance for their investment decisions.¹

We asked, Which of the following earnings-disclosure events is the most important for investors? Chart 9 illustrates what our 471 respondents say.

All Quarterly Earnings Periods Are Important

A relatively large majority (53%) of respondents say that quarterly reports are the most important. This is an emphatic statement that reflects a desire for more information, not less. Increased disclosures came into effect in the first place to avoid information asymmetries and to prevent companies from operating under dark clouds with no transparency. The disadvantages of mandatory interim quarterly reporting, therefore, have to be carefully weighed against the added value that such disclosures can bring.

Roundtable participants say that they want all the information contained in quarterly reports along with all the disclosures. They feel that the question should not be about abandoning quarterly reports but about whether the required disclosures do indeed provide investors with the information they require and whether the data is of high quality.

Chart 9. Which of the following earnings-disclosure events is the most important for investors?

Timing

The majority (67%) of respondents state that quarterly reports and earnings releases should be provided simultaneously because this would reduce the significant amount of time spent reconciling the contents of earnings releases with the contents of quarterly reports (71%). Roundtable participants agree (chart 10).

Nearly three-quarters (73%) of respondents state investors are disadvantaged at the time of an earnings call by not having access to the more detailed information contained in the quarterly report, with 82% stating that earnings calls would be more effective if they included information available in the quarterly report in addition to that available in the earnings release (chart 11).

Following is a sampling of survey comments:

- The system works well as it is. Leave it alone!
- The SEC is trying to solve a problem that does not exist.
- The greater transparency and consistency of financial reporting on a consistent and similar accounting standards basis from quarterly earnings reports is very important.
- Timely disclosure of financial results and information material to companies with registered and nonregistered securities is critical to the functioning and integrity of the capital markets.
- There is no comparison. Earnings releases provide minimal and slanted information, while quarterly reports provide standardized and detailed financial information that is extremely valuable to investors.
state that earnings calls would be more effective if they included information available in the quarterly report in addition to that available in the earnings release

N=704

Chart 11. Timing

say that the significant amount of time spent reconciling the contents of earnings releases with the contents of quarterly reports could be reduced if companies prepared and released both documents simultaneously

N=706

Chart 10. Timing

state that investors are disadvantaged at the time of an earnings call by not having access to the more detailed information contained in the quarterly report

N=705

state that quarterly reports and earnings releases should be provided simultaneously

N=707
THE EARNINGS RELEASE AS THE CORE FINANCIAL DISCLOSURE DOCUMENT

The SEC proposal suggested an option for companies that issue earnings releases. The option proposed was that these companies could use the earnings release to satisfy the core financial disclosures of the quarterly report. A company employing this option would use its quarterly report to supplement its earnings release. For example, a company that provides interim financial statements in its earnings release would not be required to include those statements in its quarterly report. The SEC refers to this proposed option as the “Supplemental Approach” rather than the currently used traditional approach, (i.e., in which the Form 10-Q includes all required information, irrespective of whether it is also included in the earnings release).

Roundtable participants are strongly against the Supplemental Approach (chart 12). In addition, 72% of survey respondents do not believe that companies should be given the flexibility to eliminate information from the quarterly report if it is included in the earnings release. They believe that the proposed Supplemental Approach would increase complexity:

- 82% of respondents state that if some companies elect the proposed Supplemental Approach and others follow the traditional approach, investors will struggle to locate information.
- Another 70% feel that the proposed Supplemental Approach would make locating and deciphering information within and between companies more complicated.
- 71% indicate the proposed approach would make it difficult for investors to distinguish between information that has and has not been reviewed by auditors (chart 13).
Chart 12. The Earnings Release as the Core Financial Disclosure Statement

- **72%** do not believe that companies should be given the flexibility to eliminate information from the quarterly report if it was already included in the earnings release.
- **37%** state that if some companies elect the proposed Supplemental Approach and others follow the traditional approach, investors will struggle to locate information.
- **70%** feel that the proposed Supplemental Approach would make locating and making sense of information within and between companies more complicated.

N=589

Chart 13. The Earnings Release as the Core Financial Disclosure Statement

- **71%** indicate the proposed Supplemental Approach would make it difficult for investors to understand what information has been reviewed by auditors and what has not been reviewed.

N=589
Additionally, 69% of respondents indicate that the proposed Supplemental Approach would not reduce the time needed for analysis and consumption of information because the information would still be released at different times. In place of the proposed approach, 72% state the SEC should require the filing of the quarterly report simultaneously with the earnings release (in accordance with the previously noted results) (chart 14).

Although respondents are not in favor of the proposed Supplemental Approach, respondents do note that if the SEC were to adopt the approach, it should take certain steps to ensure investor protections as well as efficiency in data consumption (chart 15):

- 70% state the SEC should require auditors to review information included in the earnings release.
- 81% state securities regulators should revise securities regulations to ensure that investors do not lose any legal protections if information is located in an earnings releases rather than a quarterly report.
- 74% state the SEC should require that all information provided be tagged and machine-readable to ensure that the information is readily accessible to investors.

Following is a sampling of survey comments:

- The Supplemental Approach sounds awful. Please keep all information in the 10-Qs.
- The Supplemental Approach is illogical and dangerous. A regulatory submission should be a complete disclosure.
- The Supplemental Approach as presented appears to be lessening investor protection standards.
Chart 14. The Earnings Release as the Core Financial Disclosure Statement

- **N=590**
  - **69%** strongly agree
  - **41%** agree
  - **15%** disagree
  - **12%** strongly disagree
  - **17%** no opinion

- **N=588**
  - **72%** strongly agree
  - **39%** agree
  - **13%** disagree
  - **11%** strongly disagree
  - **12%** no opinion

- indicate that the proposed Supplemental Approach would not reduce the time needed for analysis and consumption of information because the information would continue to be released at different times.

- state that in place of the proposed Supplemental Approach, the SEC should require the filing of the quarterly report simultaneously with the earnings release.

Chart 15. The Earnings Release as the Core Financial Disclosure Statement

- **N=591**
  - **70%** strongly agree
  - **41%** agree
  - **15%** disagree
  - **12%** strongly disagree
  - **3%** no opinion

- **N=590**
  - **81%** strongly agree
  - **45%** agree
  - **12%** disagree
  - **4%** strongly disagree
  - **3%** no opinion

- **N=590**
  - **74%** strongly agree
  - **41%** agree
  - **15%** disagree
  - **8%** strongly disagree
  - **3%** no opinion

- state that under the proposed Supplemental Approach, the SEC should require that information included in the earnings release be reviewed by auditors.

- state that securities regulations should revise securities regulations to ensure investors do not lose any legal protections if information is located in an earnings releases rather than a quarterly report.

- state that under the proposed Supplemental Approach, the SEC should require that all information provided be tagged and machine readable to ensure the information is readily accessible to investors.
REPORTING FREQUENCY

Significant attention has been given recently to the need for investors and management to take a long-term investment view. Some have suggested that moving from quarterly to semiannual reporting would enhance this long-term view.

Impact of Reducing Reporting Frequency

Some 64% of respondents feel that six months is too significant a time between earnings releases in the current market environment (chart 16). Additionally, 51% of respondents feel that reducing reporting frequency will be less beneficial for investors because it will reduce the focus by management on events that should be reported to investors. Roundtable participants agree. They underscore that transparency was essential for the fair functioning of markets and that quarterly reporting should be a minimum requirement, particularly for a publicly traded company. They also note that although foreign issuers in the United States were required to report only semiannually, most well-reputed companies do report quarterly.

Survey respondents also indicate that reducing the reporting frequency may create greater complexity and reduce comparability (chart 17):

- 68% indicate that reducing reporting frequency will increase the need for periodic information filings with securities regulators (e.g., Form 8-K).
- 69% indicate that reducing reporting frequency will result in the uneven release of information to investors—given the extended time between reports—and disadvantage certain investors.
- 87% feel that allowing companies different or flexible reporting frequencies will make comparability between companies and between industries even more difficult for investors.

Given the decreased transparency, decreased comparability, and increased complexity resulting from reducing reporting frequency, respondents are not in favor of reducing reporting frequency or allowing companies any flexibility as to their reporting frequency. Some 65% of respondents state the benefits of quarterly reporting to investors exceed the costs (chart 18).

Roundtable participants also affirm that reducing reporting frequency will not significantly reduce costs for issuers. In terms of writing the reports, technology is advancing so quickly that artificial intelligence is used to write most of such reports. In addition, auditors align their audit processes with the quarterly reporting process and use the quarterly review to substantiate their year-end process. Hence, companies would not realize much of a cost saving by moving to semiannual reporting.
feel that six months is too significant a time between earnings releases in the current market environment

feel that reducing reporting frequency will reduce the focus by management on events that should be reported to investors

Chart 16. Impact of Reducing Reporting Frequency

N=562

STRONGLY AGREE | AGREE | DISAGREE | STRONGLY DISAGREE | NO OPINION
---|---|---|---|---

indicate that reducing reporting frequency will increase the need for periodic information filings with securities regulators (e.g., Form 8-K)

indicate that reducing reporting frequency will result in the uneven release of information to investors—given the extended time between reports—and disadvantage certain investors

feel that allowing companies differing or flexible reporting frequencies will make comparability between companies and between industries more difficult for investors

Chart 17. Impact of Reducing Reporting Frequency

N=561

N=562

N=560

STRONGLY AGREE | AGREE | DISAGREE | STRONGLY DISAGREE | NO OPINION
---|---|---|---|---
Reporting Frequency and Volatility

Some discussion at the roundtable focused on reporting frequency and its impact on the volatility of stock prices. A paper entitled “Does Financial Reporting Frequency Affect Investors' Reliance on Alternative Sources of Information? Evidence from Earnings Information Spillovers around the World” examines this issue.\(^5\) The authors draw on a comprehensive sample of firms across 29 countries and use firm-level data on reporting frequency to provide evidence on whether financial reporting frequency influences investors’ reliance on alternative sources of information.

The paper states,

We find that the returns of semi-annual earnings announacers around the world are almost twice as sensitive to the earnings announcement returns of US industry bellwethers for non-reporting periods compared to reporting periods. Strikingly, these heightened spillovers are followed by return reversals when investors finally observe own-firm earnings at the subsequent semi-annual earnings announcement. In contrast, we do not find evidence of intertemporal variation in earnings information spillovers to quarterly reporters, nor reversals of spillovers around their subsequent quarterly earnings announcement. Collectively, the evidence is consistent with the view that low reporting frequency may lead investors to overreact to alternative sources of information for non-reporting periods due to the absence of own-firm earnings announcements.

Our results suggest that starving investors of interim financial reporting for the non-reporting periods of low reporting frequency firms leads to excessive earnings information spillovers, consistent with the absence of financial reporting for these periods impairing investors’ ability to value firms.

Roundtable participants concur that reducing reporting frequency will increase volatility.

Securities Regulatory Options Related to Reporting Frequency

Survey respondents were asked to consider various reporting models that securities regulators could adopt:

- 59% of respondents do not believe securities regulators should consider a move to a semiannual reporting model for all companies (chart 19).
- 53% of respondents do not believe securities regulators should consider a move to a semiannual reporting model for certain categories of companies (e.g., smaller reporting companies, nonaccelerated filers, emerging growth companies) (chart 19).
- 64% of respondents do not believe securities regulators should permit all companies to elect a semiannual reporting frequency (chart 19).
- 56% of respondents do not believe securities regulators should permit certain categories of companies (e.g., smaller reporting companies, nonaccelerated filers, emerging growth companies) to elect a semiannual reporting frequency (chart 20).
- 74% of respondents do not believe securities regulators should permit companies the flexibility to elect their desired reporting frequency (i.e., move from quarterly to semiannually or vice versa) (chart 21).
- 69% of respondents do not believe securities regulators should permit companies to change their reporting frequency (i.e., move from quarterly to semiannually or vice versa) (chart 21).

Although respondents reject the afore mentioned models of reporting, 62% feel that if securities regulators do allow semiannual reporting, they should require companies that voluntarily publish quarterly earnings releases to file those releases with the SEC, rather than simply furnish them (chart 22).

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6 We note some regional differences. Although respondents in the Americas reject the flexibility proposed in these models, respondents in EMEA and APAC are more open to such flexibility. In particular, they believe securities regulators should
- consider a move to a semiannual reporting model for certain categories of companies, and
- permit certain categories of companies to elect a semiannual reporting frequency.
do not believe that securities regulators should consider a move to a semi-annual reporting model for all companies

Chart 19. Securities Regulatory Options Related to Reporting Frequency

<table>
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<th>N=558</th>
<th>N=557</th>
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<td>53%</td>
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<td>37%</td>
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<td>11%</td>
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<tr>
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</table>

Chart 20. Securities Regulatory Options Related to Reporting Frequency

<table>
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<tbody>
<tr>
<td>do not believe that securities regulators should permit certain categories of companies (e.g., smaller reporting companies, nonaccelerated filers, emerging growth companies) to elect a semi-annual reporting frequency</td>
<td>56%</td>
</tr>
<tr>
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</tr>
<tr>
<td>AGREE</td>
<td>27%</td>
</tr>
<tr>
<td>DISAGREE</td>
<td>27%</td>
</tr>
<tr>
<td>STRONGLY DISAGREE</td>
<td>11%</td>
</tr>
<tr>
<td>NO OPINION</td>
<td>6%</td>
</tr>
</tbody>
</table>
Chart 21. Securities Regulatory Options Related to Reporting Frequency

- **74%** do not believe that securities regulators should permit companies the flexibility to elect their desired reporting frequency.

- **69%** do not believe that securities regulators should permit companies to change their reporting frequency (i.e., move from quarterly to semi-annually or vice versa).

N=556

N=557

Chart 22. Securities Regulatory Options Related to Reporting Frequency

- **62%** feel that if securities regulators allow semi-annual reporting, they should require companies that voluntarily publish quarterly earnings releases to file those releases with the SEC, rather than furnish them.

N=555
Impact on Investment

Some 59% of respondents do not believe that reducing reporting frequency will significantly promote a long-term investment view (chart 23). Indeed, in 2015, the CFA Institute Research Foundation commissioned a research project, *Impact of Reporting Frequency on UK Public Companies,* and found that moving to or from quarterly reporting in the United Kingdom did not have a material impact on long-term investment (see the section “Previously Expressed Positions”).

Per the survey results, there was no clear majority view on whether or not moving from quarterly to semiannual reporting will increase the cost of capital. The roundtable participants agree, however, that reducing reporting frequency will increase the cost of capital.

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Focus on Incentive Structures

CFA Institute has long contended that when companies focus on long-term strategy, they are looking at a time horizon of three to five years or longer, not six months. Accordingly, extending the reporting period from three to six months has little impact. We believe that a better approach to deterring short-termism would be to focus on companies' incentive structures. Companies interested in encouraging a long-term view should consider changing the performance periods in their incentive plans from three-year to five-year performance periods.8

Accordingly, an article titled “Six Months Isn’t ‘Long Term’”9 states,

The popular theory is that quarterly reporting discourages firms from making long-term investments. But switching to semiannual reporting wouldn’t help. Find us CEOs with stockpiles of good, long-term projects that they are not pursuing—but that they would, if only they had three extra months to report earnings. Reporting every six months is nobody’s definition of “long term.” Besides, investors have waited patiently as Amazon, Netflix and many biotech firms have followed long-term strategies.

Moving to semiannual reporting would, however, have significant costs. If financial results were disseminated less frequently, investors would have a harder time assessing firms’ announcements and market changes. Stock prices would become less accurate. The temptation for insider trading would increase dramatically, since executives and advisers would possess nonpublic information for longer.

Following is a sampling of survey comments:

- The stated goal of semiannual reporting is to promote long-term investment views. The assumption is that executives focus on short-term goals for their own benefit because compensation is tied to achieving those short-term goals. That assumption is only valid if managers have compensation tied to achieving short-term goals. Therefore, the problem of myopic corporate managers [is] caused by poor compensation structures that are under equity holders’ control. Financial statements provide owners with updates on managerial performance, giving owners the opportunity to evaluate managerial performance and seek further feedback from management. Longer time periods between reporting make it harder for owners to fix small problems before they become large ones. After all, you don’t hear executives asking for semiannual updates from their own business units. Finally, semiannual reporting will make it easier to hide fraudulent activity by giving unscrupulous executives more time to hide their tracks.

- Quarterly reporting is very useful. I believe it should be kept this way. Reducing reporting frequency will harm investors’ ability to understand the business and evaluate the securities.

- Frequent financial disclosure is the motor oil of the capital markets, allowing them to run as smoothly—although imperfectly—as possible, without which “breakdowns” will occur.

- The companies are keeping records anyway. They are not required to host earnings calls. They should be required to furnish information on a quarterly basis, since that is not that much of an incremental burden. Plenty of companies have a long-term view on their businesses while reporting

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quarterly. I believe the reporting frequency has nothing to do with the long-term or short-term nature of their managements.

■ I think that reducing reporting frequency just leaves the door open for more uncertainty, which would lead to more volatility. The long-term view by UK & Europeans is more a cultural characteristic than having anything to do with reporting frequency. That’s why the UK experienced very little change when they went to quarterly reporting.

■ Less frequent reporting will increase market reaction to reports.

■ Reducing the flow of information to investors would create the risk of greater information asymmetry between investors with access to management or industry contacts and those without. Semiannual reporting would also make it harder for the sell-side to publicly question management (more material must be understood before the earnings call and discussed within the same 1-hour time slot).

■ Small investors are disadvantaged with semiannual releases because internal knowledge becomes more important the longer the time span. No company should be allowed to “elect” their time frame . . . too ripe for a bad company to switch to less frequent reporting when things start to head downhill. Set the requirements. They can abide by them.

■ The firms you give as examples for specific firms that should have quarterly reporting as an option (e.g., smaller reporting companies, nonaccelerated filers, emerging growth companies) are the very companies that I think NEED quarterly reporting. Higher-growth firms with a shorter track record and fewer investors scrutinizing operations are the types of firms for whom things can go wrong quickly. These companies, if public, require more scrutiny, not less.

EARNINGS GUIDANCE

In June 2018, Investor Warren Buffett and JPMorgan CEO Jamie Dimon wrote a Wall Street Journal opinion piece, “Short-Termism Is Harming the Economy,” urging companies to move away from quarterly guidance (i.e., management’s estimate of future quarterly or annual results), not quarterly reporting. Their contention was that it is not quarterly reporting that creates “an unhealthy focus on short-term profits at the expense of long-term strategy, growth and sustainability,” it’s quarterly guidance.

They state,

Our views on quarterly earnings forecasts should not be misconstrued as opposition to quarterly and annual reporting. Transparency about financial and operating results is an essential aspect of US public markets, and we support being open with shareholders about actual financial and operational metrics. US public companies will continue to provide annual and quarterly reporting that offers a retrospective look at actual performance so that the public, including shareholders and other stakeholders, can reliably assess real progress.

The survey asked members for their views on quarterly earnings guidance (chart 24):

52% of respondents indicate that companies should not cease releasing quarterly guidance as it creates an undue focus on short-term results.

49% of respondents state that companies should issue quarterly earnings guidance, because if they don't, market participants will make and disclose their own estimates of future earnings (42% disagree). Company guidance ensures market participants are better informed and their estimates are more accurate.11

In a 2008 survey,12 we asked CFA Institute members whether they favored quarterly or yearly earnings guidance. Investors responded that they preferred annual (53%) estimates over quarterly (42%) estimates. The survey and roundtable participants agree that investors do use quarterly earnings estimates management guidance because it is another data point that provides context to the marketplace. Investors use yearly estimates more often, however, and prefer broader measurements of corporate performance rather than just quarterly earnings hits or misses.

Accordingly, the issue with short-termism doesn't seem to be quarterly reporting or guidance per se, but rather the need for long-term guidance or insight into the value generating aspects of the business. As such, the question of quarterly reporting or guidance (quarterly or annual) really may be one of simply more effective and integrated communication tools regarding long-term strategy and value creation. Investors passionately debate the merits and potentially negative consequences of guidance. Irrespective of the periodicity of or support for guidance, investors clearly want the SEC to focus companies on the communication of long-term growth prospects over reducing the periodicity of the reporting of quarterly results.

11 We note regional differences. EMEA and APAC are in favor of issuing quarterly earnings guidance, whereas the Americas oppose issuing quarterly earnings guidance.
12 Please see “Previously Expressed Positions” below.
Similarly, an article “Six Months Isn’t ‘Long Term’” states,

A group of prominent CEOs of major public companies and institutional investors developed a list of “commonsense corporate governance principles,” designed to generate a constructive dialogue about corporate governance at public companies. With regard to earnings guidance, the group maintained that a “company should not feel obligated to provide earnings guidance—and should determine whether providing earnings guidance for the company’s shareholders does more harm than good. If a company does provide earnings guidance, the company should be realistic and avoid inflated projections. Making short-term decisions to beat guidance (or any performance benchmark) is likely to be value destructive in the long run.” It’s worth noting here that many smaller companies feel compelled to provide earnings guidance or risk loss of analyst coverage. With regard to quarterly reporting, the view of the group was that companies “should frame their required quarterly reporting in the broader context of their articulated strategy and provide an outlook, as appropriate, for trends and metrics that reflect progress (or not) on long-term goals.”

Following is a sampling of survey comments:

- I believe that it should be left entirely to companies what guidance they wish to provide prior to official earnings announcements.
- Leave it up to companies themselves. These choices get dialed into valuations.
- Companies budget, plan, and invest based on expectations of how the business will perform. It is entirely appropriate that this information be shared with investors, so they have a guidepost to assess company and management performance.
- While quarterly earnings guidance is usually very subjective, it still provides some barometer for investors.
- Companies should provide annual guidance which is updated quarterly when they report earnings.
- Companies should only release long-term plans and update long-terms plans when there are material changes.
PREVIOUSLY EXPRESSED POSITIONS

CFA Institute has previously addressed the key themes of this paper with other research and membership surveys.

Frequency of Reporting and Short-Termism

To address the question of reporting and short-termism, the CFA Institute Research Foundation conducted research to assess the actual impact of the frequency of company reporting on UK public companies. The report, “Impact of Reporting Frequency on UK Public Companies,” authored by Robert Pozen et al. was published in March 2017 and reports on the effects on UK corporate investments and capital markets of moving to required quarterly reporting in 2007 and then dropping this requirement in 2014.

Most important, the research found that the initiation of required quarterly reporting in 2007 did not change the time horizon that UK public company management considers when making long-term investment decisions related to the businesses they operate. The study measured this impact by examining, before and after these changes in reporting requirements, the companies' capital expenditures; spending on research and development; and spending on property, plant, and equipment.

By contrast, the initiation of mandatory quarterly reporting in 2007 was associated with significant changes in other areas. An increasing number of companies published more qualitative than quantitative quarterly reports and gave managerial guidance about future company earnings or sales. At the same time, analyst coverage of public companies increased and the accuracy of analyst forecasts of company earnings improved.

When quarterly reporting was no longer required of UK companies in 2014, less than 10% stopped issuing quarterly reports (as of the end of 2015). Again, there was no statistically significant difference between the levels of corporate investment of the UK companies that stopped quarterly reporting and those that continued quarterly reporting. Analyst coverage of stoppers, however, generally did decline and companies continuing to report quarterly experienced less of such a decline.

Quarterly Guidance versus Quarterly Reporting

In 2008, CFA Institute published, *Short-Termism Survey: Practices and Preferences of Investment Professionals*[^14]. The publication was based on a CFA Institute global member survey, in which we asked CFA Institute members, who as investment professionals use financial statements and guidance, what measurements they use, which they prefer, and what type of guidance practice they see as best practice for the companies they analyze.

Because companies frequently indicate that (a) quarterly earnings expectations often make them feel excessive pressure to hit these numbers, or suffer consequences, such as a decreased stock price, excess volatility, and possibly the loss of analyst coverage; and (b) these quarterly expectations do not consider the long-term prospects of the companies we included in our 2008 survey a question on the use and usefulness of quarterly versus annual earnings guidance.

In the 2008 survey, we asked CFA Institute members whether they favored quarterly or yearly earnings guidance. Investors responded that they had preference for annual (53%) estimates over quarterly (42%) estimates. The survey also found that CFA Institute members do use quarterly earnings estimates, but they use yearly estimates more often and prefer broader measurements of corporate performance rather than quarterly earnings hits or misses.

Survey respondents approve of the use of yearly earnings guidance at a higher rate than they approve of the use of quarterly earnings guidance. When asked whether it is a best practice for companies to provide quarterly earnings guidance, 45% of participants agree or strongly agree that it is. When the same question was asked concerning yearly earnings guidance, 60% agree or strongly agree.

When asked whether they agree that it is a best practice for companies to provide financial guidance (guidance on all financial measures other than earnings) on a quarterly basis, just over half of all respondents agree or strongly agree that it is. When asked whether it is a best practice for companies to provide financial guidance on a yearly basis, the response is stronger. Nearly 70% agree or strongly agree.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE REPORTING

Given that investor interest in sustainability and environmental, social, and governance (ESG) disclosures by public companies is increasing, we also asked our members about their views on ESG reporting.

Some 67% of survey respondents say that they incorporate governance factors into their investment analysis and 51% incorporate environmental and social factors into their investment analysis. Roundtable participants agree that they paid more attention to governance than to environmental and social factors. They emphasize the importance of governance disclosures, especially compensation (chart 25).

More than half (52%) of survey respondents believe specific ESG and sustainability disclosures should be a regulatory requirement of public companies. These disclosures are now voluntary in many jurisdictions (chart 26). Some 63% believe securities regulators should either develop ESG disclosure standards or support an independent standard setter to develop such standards (chart 27).

Only 34% believe that ESG disclosures should be updated more than annually, and 48% disagree. We did identify some regional differences. In EMEA, respondents are divided over whether ESG disclosures should be updated more than annually; in APAC, they are in favor of it; and in the Americas, respondents are against it (chart 28).

Roundtable participants state that ESG means different things to different people. Clear definitions of the metrics are needed. They also express concerns over commercial databases and the quality of the data.
Chart 25. Environmental, Social, and Governance (ESG) Reporting

I/My company incorporate governance factors into our investment analysis

N=550

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I/My company incorporate environmental and social factors into our investment analysis

N=549

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</table>

Chart 26. Environmental, Social, and Governance (ESG) Reporting

52% believe that specific ESG / sustainability disclosures should be a regulatory requirement of public companies. (i.e. they are now voluntary in many jurisdictions)

N=547

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<td>18%</td>
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<td>0%</td>
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</tbody>
</table>
Chart 27. Environmental, Social, and Governance (ESG) Reporting

63% believe that securities regulators should either develop ESG disclosure standards or support an independent standard setter to develop such standards

N=547

Chart 28. Environmental, Social, and Governance (ESG) Reporting

48% believe that ESG disclosures should be updated more than annually

N=549
Following is a sampling of survey comments:

- If companies are not breaking laws they should be allowed to provide information that they believe is relevant and exclude what they feel is not relevant. Most of the issues addressed by ESG are subjective in their importance to the value of a company. These are issues that should be handled by legislatures (and most of them are already), not unelected regulators. Any ESG reporting that a company wishes to do should be voluntary.

- I think the risks of a changing climate and the risks of poor governance are very important for long-term investors and therefore need to be standardized.

- Governance disclosures (especially as it relates to compensation) are very important to . . . investors (they help us understand management’s incentives). The impact of environmental and social issues on the profitability of a business (and therefore its attractiveness as an investment) is much more subjective and less useful to investors.

- ESG is important from a social perspective—just generally doing the right thing is positive for society. That said, companies should not be forced to dedicate all the time and resources to measuring and reporting ESG considerations to the investment community.

- ESG is a very important risk and return consideration for my fund specifically and it is a strongly evolving philosophy within my firm.

- ESG is defined differently by different investors, it is a qualitative factor and should not be standardized—it is like social moral hazard issues—two people can differ on what is morality.

- ESG disclosures should be tailored to individual company/sector risks and updated for material changes as they emerge rather than only updating on a periodic basis.

- Given the diversity in which ESG disclosures are relevant for each company/industry, and the lack of standard. . . . it seems premature to formalize reporting frequencies etc.

- The Sustainability Accounting Standards Board standards should be strongly considered by regulators as forming the basis of a standard.

- I strongly support using an independent standard setter rather than the SEC.
APPENDIX

Quarterly Reporting Survey Methodology

A random sample of 28,204 CFA Institute Charterholders employed as quantitative analysts or portfolio managers were invited to participate in this electronic survey through two direct email invitations from 27 February to 10 March 2019. The survey inquired about views regarding an SEC proposal on the efficiency and frequency of quarterly financial reporting. The survey also collected demographic information.

A total of 768 individuals completed the survey; and yielded a useable response rate of 3 percent. A sample of this size has a margin of error of plus or minus 3.5 percent at a 95 percent confidence level. This means that if the survey was repeated 100 times with different samples from the same population, 95 out of 100 samples would yield a result within plus or minus 3.5 percent of each statistic reported in this study. For example, if an answer is offered by 50 percent of respondents, the results would range between a high of 53 percent and a low of 47 percent for 95 out of 100 other samples from the same population.

The survey sponsor was CFA Institute, the data collection provider was Market Intelligence and Business Analytics at CFA Institute. The data were not weighted.
ABOUT CFA INSTITUTE

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 150,000 CFA® charterholders worldwide in 165+ countries and territories. CFA Institute has eight offices worldwide and there are 151 local member societies.

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