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Stock liquidity, as measured by trading volume, has improved for companies that were freed from quarterly reporting requirements. PHOTO: PIXABAY

COMMENTARY

Companies' choices pivotal under current quarterly reporting regime

The steps companies take could ultimately contribute towards improving the quality of the market

By Wang Jiwei and Prasart Jongjaroenkamol

WHEN the Singapore Exchange (SGX) first announced it would release most companies from mandatory quarterly reporting some years ago, it stirred up vigorous debate.

Supporters of the new regime felt boards and management could focus more on the longer term when freed from the pressures of announcing results four times a year.

Critics warned of a decline in transparency and the subsequent deterioration of market quality.

However, SGX's decision has not hurt the market. And the evidence in our report, *Study on the Risk-based Quarterly Reporting Regime*, supports this.

The current risk-based quarterly reporting regime, which took effect in February 2020, makes quarterly reporting mandatory only for companies without clean audit opinions, have material going-concern uncertainties, or face regulatory concerns.

Prior to this, quarterly reporting was size-based, with reporting required for companies with market capitalisation above S$75 million.

The result is that most companies now do not have to report quarterly numbers. Under the previous regime, about seven in 10 companies were required to produce quarterly reports; this has been reduced to about two in 10 companies under the current regime.

Companies now have greater opportunity to choose how they want to shape voluntary disclosures and allocate freed-up resources. The steps companies take could ultimately contribute towards improving the quality of the market.

Our report, carried out with the support of SGX, undertook analysis of data on companies and the market up to two years before and up to two years after the new regime. We also supplemented the empirical work with surveys of key executives at listed companies.

The data showed that companies which no longer have to perform mandatory quarterly reporting face a lower compliance burden. Average audit fees for this group of companies decreased to S$1.12 million one year after the change, from S$1.27 million the year prior.

Furthermore, 56 per cent of survey respondents agreed that the new regime allowed more time for board discussions about business and strategy – substantially more than the 20 per cent of respondents who disagreed.

Just as importantly, almost four-fifths of respondents did not feel that oversight of their companies' financials had suffered under the new regime.

Improved performance

We also considered how the new rules may have affected market quality.

Stock liquidity, as measured by trading volume, improved for companies that were freed from quarterly reporting requirements, and decreased for those that had to begin quarterly reporting.

Information asymmetry seemed to have reduced in the new regime, with bid-ask spreads narrowing for companies that no longer had to perform quarterly reporting.

Unlike the previous regime where quarterly financial statements must comply with prescribed requirements, companies now have flexibility on the format and content of their voluntary updates.

However, spreads appeared to narrow across the market – even for companies that had quarterly reporting obligations under the new regime – which makes it difficult to attribute the narrower spreads solely to the new regime.

The findings were less conclusive with respect to the impact on analyst coverage and long-term investments, due to the limited number of analysts covering the companies and the short study period respectively.

Taken together, the findings suggest that companies and their boards and management were among the key beneficiaries after the new rules took effect. Since the new rules were aimed at addressing those stakeholders, it appears that the benefits landed as intended.

It was harder to measure the impact on market quality due to data limitations, but the absence of a clear negative impact suggests that the worst fears about doing away with quarterly reporting have not come true so far.

As the key beneficiaries of the new regime, companies – and their directors and executives – have two related sets of decisions to make. The first is whether and how to voluntarily provide interim information to the market on the companies' business performance, and the second is what to do with the freed-up resources.

Our analysis suggests that the market pays attention to information on companies' interim performance, with stock prices reacting not just for companies that issue the announcements but also for comparable peers in the market. Providing interim information should therefore be encouraged.

Fortunately for companies, providing such updates is no longer as onerous as it used to be under the old, prescriptive regime. Unlike the previous regime where quarterly financial statements must comply with prescribed requirements, companies now have flexibility on the format and content of their voluntary updates. These updates may include financial or non-financial indicators on the periodic performance of the company.

It is encouraging that the most often-cited reason by listed companies we surveyed for not providing voluntary quarterly financial statements is to deploy resources or attention to longer-term objectives.

Longer-term goals

In lieu of quarterly financial statements, business updates were perceived as less resource-intensive and more meaningful alternatives. Furthermore, more survey respondents agreed than disagreed that the new regime shifts focus away from short-term objectives towards longer-term goals.

Among the most-cited reasons for volunteering financial or business updates is to satisfy the demand of investors. For companies that are still sitting on the fence about providing interim insights, perhaps the voice of capital can be persuasive enough.

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