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Kate Hinchy
Primary Market Policy
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS
cp14-12@fca.org.uk

Response to consultation paper CP14/12:
Removing the Transparency Directive's requirement to publish interim management statements

The Financial Reporting and Analysis Committee (FRAC) of the CFA Society of the UK (CFA UK) welcomes the opportunity to respond to the consultation paper by the Financial Conduct Authority on interim management statements.

CFA UK represents more than 10,000 investment professionals working across the financial sector including asset managers, buy-side analysts, sell-side analysts and credit rating analysts, among others. For advocacy purposes in the field of financial reporting, these members are represented by the Financial Reporting and Analysis Committee.

Executive Summary

Under the EU's Transparency Directive Amending Directive, from November 2015 EU-listed companies will no longer be required to publish interim management statements (IMS) for their first and third quarters. Half year and full year reporting will still be required. The FCA is proposing that UK-listed companies drop the requirement for IMS from the autumn of 2014.

We are disappointed that the EU will no longer require IMS as many investors find the interim updates helpful. We are also disappointed that the FCA would wish to remove this requirement early, although in practice it will only affect one or possibly two IMS during 2015.

Our answer to questions 1-3 is: no, we do not agree. Re question 4, while removing the requirement will clearly not have significant costs for issuers, there will be a loss of benefits to investors, as explained below, and the reporting vacuum will increase the burden of responsibility on management to ensure that it reports all price-sensitive information as soon as possible. Companies that do stop giving interim updates run the risk of increased share-price volatility and a higher cost of capital.

We believe the EU's withdrawal of the IMS requirement will put the region at a disadvantage compared with other capital markets, such as the US, with more investors perceiving the latter as the world leader in securities transparency requirements. We note that the regulation in DTR4.3 on what an IMS must provide does not amount to detailed prescription, and so companies have been able to report in a proportionate manner. Perhaps encouraging best practice, with an emphasis on relevant and material information, would have been a more progressive approach.

Financial Reporting and Analysis Committee views on IMS

The consultation prompted a strong response from members of the FRAC. We believe that the views of investors and others who rely on regular corporate reporting have not been taken sufficiently into account. We thought it would be helpful, albeit at a late stage, to explain our main concerns.

Interim financial reporting by companies in Europe typically falls into three categories:

- Companies that report full quarterly income statements, balance sheets and even cash flow statements. Usually these companies are required to do so by the SEC as they have significant shareholder bases in the US or US-listed securities (ADRs).

- Companies that report revenue and provide management commentary for the first and third quarters as well as limited balance sheet information such as a net debt position. We do not expect these companies to stop reporting this information despite the removal of the IMS requirement. Any company that did so would come under intense scrutiny from investors, who would compare it unfavourably with more transparent and communicative peers. This could contribute to a lower valuation.

- Companies that pay lip service to the IMS requirement with brief boilerplate statements referring to business performance tracking in line with expectations set out earlier in the year. These companies may well stop reporting IMS.

We believe the companies likely to stop the interim updates are only those that never embraced the concept wholeheartedly. While their IMS may not have added a great deal of value, the absence of a statement reminding investors that "everything is still on track" could lead to speculation between the half year announcements that everything is not on track. This is particularly the case if their sector peers continue to report quarterly results. This is likely to lead to increased volatility for their shares and an increased cost of capital, to compensate for the uncertainty.

We understand that the withdrawal of the IMS requirement is perhaps intended to reduce short-termism among investors, encouraging them to focus on performance over longer periods rather than quarterly results which are inherently more volatile in some sectors. However, we believe investors are generally good at separating the noise in quarterly results from the longer-term trends. Any investors who are bad at separating noise from signal provide an arbitrage opportunity for more sophisticated traders, or indeed for long-term investors to buy at better value (both activities would tend to neutralise over- or under-shooting of the share price). Management's job is to explain any volatility in quarterly results to help all market participants interpret the information correctly. The same is equally true of half-year and full-year results.

Quarterly updates provide a useful touch point between management and the broader investor community that ensures market expectations are in line with reality. Removing these quarterly updates increases the risk that there are over-reactions to half-year and full-year results. A company executing a long-term plan needs to keep shareholders up-to-date to reassure them that all is going according to plan, or to give them a timely warning of potential delays.

We do not believe that regular communication between companies and investors promotes "short-termism" on the part of either management or investors. In different contexts, company regulators have been seeking improved "engagement" between management and shareholders.

While the current trading/trading outlook statements prepared for the annual meeting will continue to give some interim guidance, there will be a particular vacuum later in the year. The danger is that it will be filled by unscheduled trading statements, including profit warnings, that cause more share-price volatility than planned interim updates. We note that there is no plan to change section 2.2 of the listing rules on disclosure and transparency, which governs the disclosure of inside information that might move the share price. So the burden on companies of having to assess whether or not to make an unscheduled announcement will increase.

In the absence of public interim updates there is a risk that those investors who have access to management will be advantaged over those that rely on the public 6-monthly results. Large investors that participate in company road shows will makes assessments based on management tone and body language while staying within insider information laws. Small and retail investors will be even more disadvantaged than they are currently.

We look forward to discussing the issues raised in this response.

Yours sincerely,

Jane Fuller
Chair, Financial Reporting and Analysis Committee
CFA Society of the UK

Will Goodhart,
Chief Executive
CFA Society of the UK

James Crawshaw, CFA, ASIP
Financial Analysis and Accounting Adviser
CFA Society of the UK

About CFA UK and CFA Institute

The CFA Society of the UK (CFA UK) represents the interests of more than 10,000 leading members of the UK investment profession. The society, which was founded in 1955, is one of the largest member societies of CFA Institute and is committed to leading the development of the investment profession through the promotion of the highest ethical standards and through the provision of continuing education, advocacy, information and career support on behalf of its members. Most CFA UK members have earned the Chartered Financial Analyst® (CFA®) designation, or are candidates registered in CFA Institute's CFA Program. Both members and candidates attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

CFA Institute is the global association for investment professionals. It administers the CFA and CIPM curriculum and exam programs worldwide; publishes research; conducts professional development programs; and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry. CFA Institute has more than 100,000 members in 140 countries, of which more than 90,000 hold the Chartered Financial Analyst (CFA) designation.