

Economic Analysis of the SEC’s Proposed Rule on Semiannual Reporting

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The Securities and Exchange Commission has proposed amendments to Rules 13a-13 and 15d-13 under the Exchange Act that would permit reporting companies currently required to file Form 10-Q to elect to file a new semiannual Form 10-S instead. The Proposal is structured as a simple expansion of issuer optionality: no issuer would be required to change anything, and the substantive disclosure content of interim reports would remain unchanged. The main economic conclusion is that the Proposal would generate approximately \$394 million in aggregate annual monetized benefits versus approximately \$159 million in aggregate annual monetized costs, generating net benefits with a ten-year present value of roughly \$1.7–2.0 billion.

The qualitative discussion engages with the standard tradeoff surrounding disclosure frequency. It frames the issue using the established theoretical work of [Diamond and Verrecchia \(1991\)](#), [Easley and O’Hara \(2004\)](#), and [Lambert et al. \(2007\)](#) on the relationship between disclosure quality and the cost of capital. It also recognizes, at least conceptually, that issuers choosing their own reporting frequency may not internalize important externalities, including information asymmetry among investors, information spillovers to peer firms, reductions in analyst coverage, and the effects of price informativeness on corporate investment decisions. The release identifies these market-wide costs, but it largely stops short of analyzing their effects and declines to conclude whether the Proposal

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would leave markets better or worse off. A complete economic analysis must address all significant economic costs and benefits, and the qualitative treatment is less persuasive where the release relies on boilerplate language that effectively dismisses the concerns it enumerates. The gap matters because at least some of the effects the release discusses can be quantified rather than merely described qualitatively.

The Proposal also identifies a commitment problem. An issuer cannot credibly signal a lasting commitment to transparency while retaining the discretion to reduce its reporting frequency. However, the analysis does not adequately address the economic consequences of this strategic switching option.

The Commission does not identify a market failure that establishes the need for regulatory intervention; the analysis instead focuses on the direct benefits of reduced compliance costs. Beyond this threshold problem, the Proposal has four significant limitations:

1. The monetized cost-benefit calculation rests on an assumed 20% take-up rate that receives limited empirical support. Because every quantified figure scales with take-up, the absence of a sensitivity analysis leaves the central estimates without a measure of their uncertainty.
2. The Economic Analysis does not quantify several potentially important economic costs. We provide one such estimate by showing that if reduced transparency increases the cost of equity capital by only 5 basis points, the resulting losses to shareholders range from \$94.2 billion to \$176.9 billion. These estimates are large and overwhelm the Proposal's quantified benefits.
3. The annual reporting-frequency election creates a state-contingent switching option whose value is greatest when management expects unfavorable information. The private value of that option to issuers imposes adverse-selection costs on investors.
4. The Proposal does not adequately consider reasonable alternatives, including the content-based disclosure reforms the Commission is already pursuing.

The remainder of this letter develops these points. It first reviews the standards the Commission applies in its own economic analysis, then examines the monetized cost-benefit calculation, which

counts paperwork savings as benefits that scale according to a single assumed take-up rate. It turns next to the related research on the economic effects of disclosure frequency, asking whether the Proposal draws on that research even-handedly, and quantifies one cost the Proposal leaves unmonetized, the effect of reduced transparency on the cost of equity. It closes by examining the option value created by allowing issuers to switch reporting frequency and the reasonable alternatives the Proposal does not consider, principally the content-based disclosure reforms the Commission is already pursuing.

1 *Economic Analysis at the SEC*

The Commission's approach to constructing an Economic Analysis (EA) is designed to integrate economic considerations systematically into the rulemaking process.¹ The EA is intended to produce an objective and balanced assessment of a proposed regulation's likely consequences. The purpose of the analysis is not to justify a predetermined regulatory outcome but to inform the Commission and the public about the proposal's benefits, costs, tradeoffs, and reasonable alternatives. A rigorous EA has four principal elements:

1. *Identifying the need for rulemaking.* The analysis should identify the market failure, regulatory failure, or other problem that may warrant Commission action and explain how the proposed rule is expected to address it.
2. *Establishing an economic baseline.* The analysis should define the economic conditions that are expected to prevail in the absence of the proposed rule. This baseline provides the benchmark against which the anticipated benefits and costs of the rule are evaluated, including its effects on efficiency, competition, and capital formation.
3. *Evaluating reasonable alternatives.* The analysis should identify reasonable alternatives to the proposed rule and compare their likely economic consequences with those of the proposed approach.

¹See U.S. Securities and Exchange Commission, Division of Risk, Strategy, and Financial Innovation and Office of the General Counsel, *Current Guidance on Economic Analysis in SEC Rulemakings* (Mar. 16, 2012).

4. *Assessing economic effects.* The analysis should evaluate the likely benefits and costs of the proposed rule and its reasonable alternatives using the best available evidence. These effects should be quantified whenever feasible. When reliable quantification is not possible, the analysis should explain the relevant effects qualitatively and identify the limitations that prevent quantification.

2 The Monetized Cost-Benefit Calculation

The Proposal's monetized cost-benefit calculation rests on a narrow set of inputs that does not capture the substantive economic effects the release itself identifies. The two features of the calculation that warrant attention are the asymmetric treatment of quantified benefits and unquantified costs, and the sensitivity of every monetized figure to a single assumed take-up rate.

2.1 Asymmetry in the Monetized Cost-Benefit Calculations

The release counts paperwork savings as benefits while leaving the substantive costs of reduced disclosure unquantified. The \$394 million annual benefit is the per-filing Paperwork Reduction Act burden for Form 10-Q, approximately \$110,000, multiplied by three quarterly filings and by 1,195 assumed switching issuers; the \$159 million annual cost is constructed on the same paperwork basis. The single attempt at quantification only reflects direct compliance burdens. There is no attempt to quantify any of the substantive costs the release enumerates elsewhere, such as increased information asymmetry, reduced liquidity, a higher cost of capital, reduced price informativeness, lost analyst coverage, reduced comparability, weaker investor monitoring, slower auditor identification of misstatements, spillovers to firms that continue quarterly reporting, switching costs, and contract-renegotiation costs.

Consequently, the reported net benefit compares quantified paperwork savings against an incomplete accounting of costs. Measured against the Commission's own standard that effects be quantified whenever feasible, the asymmetry is consequential, because several of these cost channels can be calibrated from available evidence.

2.2 The Assumed Adoption Rate

The entire monetized calculation scales linearly with the share of affected issuers assumed to switch, and that share rests on limited support. The release adopts a 20% take-up rate derived from a 2019 Nasdaq survey in which 75% of 183 self-selected respondents agreed that their company or its investors would benefit from a semiannual model. The closest available natural experiment points to a lower figure. In the United Kingdom’s 2014 deregulation, only approximately 9% of firms stopped quarterly reporting once permitted to do so (Nallareddy et al. 2021). The release does not reconcile this revealed-preference evidence with its assumed adoption rate, and it presents no sensitivity analysis across a range of plausible take-up rates. Because the monetized figures scale proportionally with take-up, the omission is material. At a 10% adoption rate the estimated benefits are halved, and at the 9% rate observed in the United Kingdom they fall to roughly 45% of the reported figure. A sensitivity table spanning, for example, 5%, 10%, 20%, 30%, and 40% take-up would be straightforward to construct and would convey the uncertainty surrounding the central estimate. The release also does not consider whether the issuers most likely to switch differ systematically by size or type, so the composition of the switching population, and hence its consequences for market quality, remains unexamined.

3 Related Research

The proposal’s economic analysis intersects several strands of research on the economic effects of disclosure frequency. The relevant strands concern the relation between reporting frequency and the cost of equity capital, the formation of prices and the analyst information environment, managers’ real investment decisions, the quality and comparability of audited financial statements, and the extent to which voluntary disclosure substitutes for mandated interim reports. The release engages each of these strands but draws on them unevenly, crediting findings that support reduced frequency while acknowledging, then leaving unquantified, findings of comparable standing that imply offsetting costs.

3.1 Reporting Frequency, Information Asymmetry, and the Cost of Equity

Reduced reporting frequency can raise the cost of equity capital by widening information asymmetry among investors. The mechanism is established in disclosure theory: when some investors hold private information, less frequent public disclosure lengthens the interval over which that advantage accumulates, increasing adverse selection and the return uninformed investors require to trade (Diamond and Verrecchia 1991; Lambert et al. 2007). Fu et al. (2012) provide direct evidence on this channel using the staggered movement of U.S. firms across annual, semiannual, and quarterly reporting between 1951 and 1973, finding that higher reporting frequency lowers information asymmetry and the cost of equity, with results that hold for mandated frequency changes and survive controls for the endogeneity of the reporting choice. Stoumbos (2023) documents the intervening time path, showing that effective spreads grow by roughly 3% over the interval between earnings announcements and then decline upon the arrival of a new report. Semiannual reporting is thus associated with greater asymmetry during the months without a mandatory report.

The release cites both studies but uses neither to quantify the cost-of-equity effect, although the reported estimates are of the kind that support calibration. Because Fu et al. (2012) identify their effect from mandatory changes in a U.S. setting, their estimates can be used to bound the valuation consequences of a reduction in frequency. Treating this channel as quantifiable, rather than purely qualitative, would bring the cost side of the analysis into line with the precision the release applies to compliance-cost savings.

3.2 Price Formation and the Analyst Information Environment

More frequent mandated disclosure supports price formation and analyst coverage, and the release credits the offsetting evidence more heavily than the balance of the research warrants. Mandatory periodic reports provide standardized information that investors and analysts incorporate in prices; when that information is withheld, investors rely on noisier substitutes and signals from peer firms. McMullin et al. (2019) provide causal U.S. evidence on this point, showing that the 2004 expansion of mandated Form 8-K disclosure improved price formation, with the largest improvements at firms whose mandated disclosure increased the most. Nallareddy et al. (2021) find that the

United Kingdom’s mandatory quarterly reporting regime was associated with greater analyst coverage and more accurate forecasts. [Arif and De George \(2020\)](#) show that the returns of semiannual reporters are nearly twice as sensitive to the earnings announcements of U.S. industry bellwethers during non-reporting periods, accompanied by elevated volatility and trading volume, evidence that investors do not fully offset the loss of own-firm interim information.

The release relies on [Butler et al. \(2007\)](#), who find that mandated frequency increases did not improve earnings timeliness, to discount the price-formation concern. That study addresses timeliness rather than asymmetry or the cost of capital, and [Fu et al. \(2012\)](#) document benefits on the latter margins even for mandated changes in the same historical setting. The contrast between the two findings is a reason to treat the price-formation cost as a significant economic issue. If more frequent mandated disclosure improves price formation, the analysis would benefit from an explanation of why removing two mandated reports each year would not degrade it.

3.3 Reporting Frequency and Real Investment

The evidence that more frequent reporting induces managerial short-termism is mixed, and the analysis rests its long-termism benefit on its strongest supporting study, while contrary evidence of comparable standing receives less weight. The concern about short-termism originates in models and survey evidence showing that managers sacrifice long-run value to meet near-term earnings benchmarks ([Stein 1989](#); [Graham et al. 2005](#)). [Kraft et al. \(2018\)](#) find that increases in mandated U.S. reporting frequency were followed by declines in investment of roughly 1.5%–1.9% of total assets, which they interpret as evidence of myopia. [Ernstberger et al. \(2017\)](#) find that a European Union mandate to report quarterly increased real activities manipulation.

Two studies with solid identification designs, however, point the other way. [Kajüter et al. \(2019\)](#), using a regression discontinuity around Singapore’s market-capitalization threshold for mandatory quarterly reporting, find a reduction in firm value for small firms of about 5% but no evidence of myopic investment or of clear informational benefits, and [Nallareddy et al. \(2021\)](#) find no material effect of reporting frequency on investment in the United Kingdom.

The benefit the release attributes to reduced frequency is, moreover, largely independent of Form

10-Q. The pressure that drives short-termism attaches to earnings announcements, guidance, and analyst benchmarks rather than to the periodic filing, and the release’s own tabulations indicate that earnings releases accompany roughly three-quarters of periodic filings overall and more than 90% for larger issuers. Firms electing semiannual reporting would, in most cases, continue to announce earnings quarterly. Eliminating the filing would therefore not eliminate the quarterly earnings cycle through which the documented pressure operates. The firm-value effect in [Kajüter et al. \(2019\)](#) also reflects compliance costs, which the analysis already counts as monetized savings, so invoking the same study for a separate long-termism benefit risks double-counting.

3.4 Audit Quality, Comparability, and Managerial Monitoring

Less frequent interim reporting bears on audit quality, financial statement comparability, and shareholder monitoring, three channels the release identifies as costs but does not quantify. [Christensen et al. \(2021\)](#) show, using proprietary engagement data, that interim audit effort facilitates the identification and remediation of internal control deficiencies before year-end and supports more timely reporting. Fewer interim reviews could delay the detection of problems in the annual financial statements, with semiannual reporting as the primary disclosure vehicle. [De Franco et al. \(2011\)](#) find that greater financial statement comparability raises analyst following and forecast accuracy and lowers forecast dispersion; comparability falls when some firms in an industry report quarterly and others semiannually, a cross-firm loss that the release’s discussion of fiscal-period alignment does not capture. [Downar et al. \(2018\)](#) find that semiannual reporters exhibit lower valuation of cash holdings than quarterly reporters and that the difference narrows when firms adopt more frequent reporting, consistent with more frequent disclosure reducing agency costs through timelier monitoring, with stronger effects where governance or earnings quality is weak.

Each of these channels is, in principle, measurable. The release acknowledges them and explains the underlying mechanisms, but it does not estimate their magnitude or state why estimation is infeasible. Addressing them quantitatively, or explaining the obstacles to doing so, would align the treatment of these costs with the analysis the release applies to the benefits it monetizes.

3.5 The Redundancy of Interim Filings and the Endogeneity of Voluntary Disclosure

The proposal’s premise that earnings releases render interim filings largely redundant assumes that the voluntary-disclosure equilibrium would be unchanged if the mandate were relaxed, and the research indicates that it would not. [Li and Ramesh \(2009\)](#) report that the market reaction to quarterly filings is concentrated in cases where the filing provides the first public disclosure of earnings, the finding on which the redundancy argument principally rests. The same study documents an intra-industry information transfer around quarter-end filings and a market reaction to annual filings that earnings releases do not subsume. [Bornemann et al. \(2025\)](#) examine the Vienna Stock Exchange after its prime segment abandoned the quarterly reporting mandate and find that few firms terminated quarterly reporting outright while most reduced its content, chiefly by omitting note disclosures. Further, firms terminating or curtailing quarterly reports experienced an economically significant decline in liquidity. These patterns indicate that voluntary substitutes are endogenous to the mandate and thinner than the reports they replace.

This endogeneity is recognized within the release itself, which states that the voluntary disclosures investors would rely upon generally exist because of the interim reporting requirement. An analysis that treated the substitute disclosures as fixed would overstate the information that survives a switch to semiannual reporting. Modeling voluntary disclosure as responsive to the mandate, and examining the content reductions observed among firms that retain nominal quarterly reporting, would give a more accurate account of the information costs at issue.

3.6 Summary

The research cited in the release supports a more symmetric treatment of costs and benefits than the economic analysis provides. The cost channels documented in this research, including a higher cost of equity ([Fu et al. 2012](#)), slower price formation ([McMullin et al. 2019](#)), weaker monitoring ([Downar et al. 2018](#)), and reduced comparability ([De Franco et al. 2011](#)), rest on evidence comparable in standing to the studies that the release credits on the benefit side, and several admit quantification. Appendix 7 summarizes the principal studies and their implications.

Whether reduced reporting burdens would encourage firms to go or remain public is a separate

but related question, and, on it, the release’s own citations counsel modest expectations. [Ewens et al. \(2024\)](#) attribute only about 7% of the post-2000 decline in the propensity to go public to the regulatory costs of being public, and [Gao et al. \(2013\)](#) find little support for a regulatory explanation of that decline, so the two periodic filings at issue here imply at most a small effect on listing decisions.

In sum, an analysis that calibrated at least the cost-of-equity channel and addressed the endogeneity of voluntary disclosure would be consistent with the Commission’s stated practice of quantifying economic effects whenever feasible and explaining them when quantification is not.

4 Quantification of Costs Associated with Less Transparency

An important indirect economic cost of a switch to semiannual reporting is a potential increase in issuers’ cost of capital. The related research reviewed in Section 3.1 provides evidence that reduced disclosure frequency can increase the cost of equity. This section quantifies the resulting valuation effect using the residual income framework developed by [Frankel and Lee \(1998\)](#). Specifically, we estimate equity values under alternative assumptions about the cost of equity and measure the associated change in aggregate firm value.

4.1 Residual Income Valuation

The residual income valuation model expresses the equity value in terms of the accounting book value and expected future earnings as

$$V_{it} = B_{it} + \sum_{j=1}^{\infty} \frac{\mathbb{E}_t [NI_{i,t+j} - k_{it}^e B_{i,t+j-1}]}{(1 + k_{it}^e)^j}, \quad (1)$$

where B_{it} is the current book value of common equity, $NI_{i,t+j}$ is the expected future net income, and k_{it}^e is the cost of equity. The difference $NI_{i,t+j} - k_{it}^e B_{i,t+j-1}$ is residual income: earnings in excess of the return required by shareholders on the book equity invested in the firm. Equivalently, residual income can be written as

$$RI_{i,t+j} = (FROE_{i,t+j} - k_{it}^e) B_{i,t+j-1}, \quad (2)$$

where $FROE_{i,t+j}$ is the forecasted return on equity, estimated using analyst consensus earnings forecasts. A firm that is expected to earn exactly its cost of equity has zero expected residual income and is therefore valued at book value. Expected returns on equity above (below) the cost of equity increase (decrease) the estimated value relative to book value.

The residual income approach has several advantages. First, it provides a structural link between accounting information and equity value rather than relying on an ad hoc valuation multiple. Second, the current book value anchors a substantial portion of the valuation, reducing the proportion of estimated value assigned to a distant terminal value. Third, the model explicitly incorporates expected profitability. Firms with similar book values can therefore have substantially different estimated values when their expected returns on equity differ. Finally, analyst forecasts provide forward-looking information that may better reflect the market's earnings expectations than mechanically extrapolated historical earnings. Consistent with this intuition, [Frankel and Lee \(1998\)](#) find that residual-income values based on consensus analyst forecasts are more closely related to contemporaneous stock prices than book value or residual-income estimates based only on historical profitability.

4.2 Forecast Horizon and Terminal Value

[Frankel and Lee \(1998\)](#) use an explicit forecast horizon of no more than three years. This choice reflects both economic and data limitations. Forecast accuracy deteriorates rapidly with forecast horizon, and errors in forecasted earnings, book values, and returns on equity compound as the model is extended further into the future. Extending the explicit forecast period would therefore create the appearance of greater precision while relying increasingly on mechanically extrapolated rather than directly observed analyst forecasts.

At the end of the explicit forecast period, the model assumes that the final forecast of residual income continues as a perpetuity. In a three-period implementation, value can be written as

$$V_{it} = B_{it} + \frac{B_{it}(FROE_{i,t+1} - k_{it}^e)}{1 + k_{it}^e} + \frac{B_{i,t+1}(FROE_{i,t+2} - k_{it}^e)}{(1 + k_{it}^e)^2} + \frac{B_{i,t+2}(FROE_{i,t+3} - k_{it}^e)}{k_{it}^e(1 + k_{it}^e)^2}. \quad (3)$$

The final term capitalizes terminal residual income as a perpetuity. Thus, “three-year model” refers to the period over which profitability is modeled explicitly.

4.3 Empirical Implementation

Our implementation combines Compustat accounting data, I/B/E/S consensus earnings forecasts, and CRSP-based estimates of the cost of equity. We begin with the firm’s reported common equity, net income, dividends, shares outstanding, and fiscal-year-end stock price.

Forecasted book equity is then constructed recursively using the clean-surplus relation. In particular, the portion of forecasted earnings not distributed as dividends is added to book equity:

$$B_{i,t+j} = B_{i,t+j-1} + (1 - k_{it})NI_{i,t+j}, \quad (4)$$

where k_{it} is the estimated dividend payout ratio. For firms with positive earnings, the payout ratio is based on dividends relative to reported income. For firms with negative or missing earnings, the procedure uses a normalized earnings measure based on total assets.²

Forecasted returns on equity (*FROE*) are computed by dividing forecasted aggregate earnings by the relevant forecasted book value. The resulting sequence of current book equity, forecasted book equity, and forecasted return on equity serves as inputs to Equation (3). We implement the model in two related ways. First, we calculate the fundamental value using a CAPM-based cost of equity,

$$k_{it}^e = R_t^f + \beta_{it}\lambda_m, \quad (5)$$

where R_t^f is the risk-free rate, β_{it} is the firm’s estimated market beta, and λ_m is the assumed market risk premium of 5.5%.³ Second, we invert the residual income model to obtain the implied cost

²Following Frankel and Lee (1998), the normalized earnings measure is 6% of total assets. The dividend payout ratio is constrained to the minimum of the actual payout ratio and the ratio based on normalized earnings when the actual payout ratio exceeds 75%, a constraint that mitigates the possibility of extreme observations producing implausible forecasts of future book equity.

³The risk-free rate is the current yield on a ten-year Treasury bond obtained from the Federal Reserve Bank of St. Louis FRED website. Equity betas are estimated using CRSP stock returns and the CRSP value-weighted market index over a 252-trading day estimation window.

of equity, k_{it}^{imp} , which equates the model value to the observed market value of equity. Because the resulting valuation equation is a cubic function of k_{it}^{imp} , the implied rate is solved numerically. The procedure first searches for an exact root over an economically bounded range. When no exact root is available, it selects the rate that minimizes the squared difference between the observed and model-implied equity values.

4.4 Model Caveats

The model's usefulness depends on the quality of its inputs and assumptions. Analyst forecasts may contain systematic optimism or may adjust slowly to new information, a concern documented by [Frankel and Lee \(1998\)](#). The valuation is also sensitive to the terminal-value assumption because the final forecast of residual income is treated as persistent. A temporarily high forecasted return on equity can therefore produce an overstated terminal value. Conversely, the model may undervalue firms whose profitability is temporarily depressed but expected to recover after the explicit forecast period.

Additional limitations arise from the clean surplus assumption, the accounting measurement of book equity, the estimated payout ratio, and the choice of the cost of equity. Share repurchases, equity issuances, accumulated other comprehensive income, mergers, and other transactions can cause changes in book equity that are not captured fully by retained earnings. Book value may also be a poor measure of invested capital for firms with substantial internally generated intangible assets. Finally, requiring analyst forecasts can tilt the sample toward larger and more visible firms. These limitations counsel against interpreting the model as producing a uniquely correct measure of intrinsic value. Its principal benefit is instead to provide a transparent and internally consistent framework for translating expected profitability and changes in the required return into economically meaningful estimates of equity value.

4.5 Expected Cost of Transparency Loss

Table 1 reports estimates of the reduction in aggregate equity value associated with an increase in issuers' cost of equity resulting from diminished disclosure transparency. Panel A calculates

the valuation effect using the CAPM cost of equity, whereas Panel B uses the implied cost of equity. The first numerical column reports the estimated effect for firms in the I/B/E/S sample. The final column extrapolates the estimate to the full Compustat sample and assumes that 20% of eligible issuers adopt the less frequent reporting regime. This take-up rate is consistent with the Commission’s assumption. Because the estimates scale linearly with participation, alternative take-up assumptions would change the reported costs proportionately.

The estimated valuation effects are economically large even for modest increases in the cost of equity. Under the CAPM specification in Panel A, a 2.5-basis-point increase in the cost of equity reduces the aggregate value of firms by approximately \$47.3 billion after extrapolation to the full Compustat sample and adjustment for the 20% take-up. A 5-basis-point increase produces an estimated valuation loss of \$94.2 billion. The corresponding adjusted estimates increase monotonically with the cost of capital.

Panel B produces consistently larger estimates than Panel A when the implied cost of equity is used. A 2.5-basis-point increase is associated with an expected loss of \$89.5 billion after extrapolation and the take-up adjustment. At 5 basis points, the corresponding estimate is \$176.9 billion. The adjusted valuation loss rises to \$665.3 billion if the cost of equity increases by 20 basis points.

Taken together, the estimates indicate that relatively small increases in the cost of equity can generate valuation losses that are economically meaningful. Under the assumed 20% take-up rate, a 5-basis-point increase in the cost of equity produces an estimated cost ranging from approximately \$94.2 billion under the CAPM specification to \$176.9 billion under the implied-cost-of-equity specification. These estimates illustrate that the potential capital-market costs of reduced transparency can be substantial even when the assumed effect on required returns is small.

5 Significant Omitted Economic Effects

5.1 The Option Value of Switching Reporting Frequency

The Proposal analyzes reporting frequency primarily as a static choice between the compliance costs of quarterly reporting and the informational benefits of more frequent disclosure. This framing

Table 1: Estimated valuation costs associated with lost transparency. Panel A reports expected costs based on a CAPM cost of equity. Panel B reports expected costs based on the implied cost of equity. Both panels account for the 20% take-up and the observation that the market value of the I/B/E/S sample is 39.44% of the market value of the full Compustat sample.

Basis Points	I/B/E/S Sample	Extrapolation and 20% Take-up
Panel A: CAPM Equity Cost of Capital		
2.5	93,294	47,305
5	185,863	94,242
7.5	277,717	140,816
10	368,865	187,033
12.5	459,315	232,895
15	549,077	278,409
17.5	638,159	323,578
20	726,571	368,407
Panel B: Implied Equity Cost of Capital		
2.5	176,547	89,518
5	348,957	176,939
7.5	517,577	262,437
10	682,683	346,154
12.5	844,503	428,204
15	1,003,232	508,688
17.5	1,159,039	587,690
20	1,312,072	665,285

understates an important feature of the proposed regime: the ability to choose reporting frequency creates a recurring, state-contingent option. Under the Proposal, an issuer would make its election annually in its Form 10-K, and that election would determine whether it files quarterly reports on Form 10-Q or a semiannual report on Form 10-S during the ensuing fiscal year ([U.S. Securities and Exchange Commission 2026](#)). Because management possesses private information about current operating performance when it makes this election, the choice need not reflect only stable firm characteristics or long-run compliance costs. It can also depend on the information management expects the next periodic report to reveal. For example, [Kothari et al. \(2009\)](#) provide evidence that managers delay the disclosure of bad news relative to good news. This asymmetry is directly relevant to the reporting-frequency decision because a longer mandatory reporting interval increases management's ability to postpone market recognition of deteriorating performance.

The option is valuable because its payoff is asymmetric. An issuer that elects semiannual reporting remains free to disclose favorable developments voluntarily through earnings releases, investor presentations, or Form 8-K. By contrast, unfavorable information that does not independently trigger a current-reporting obligation can remain undisclosed until the next mandatory periodic report. Semiannual reporting therefore allows management to retain much of the benefit from releasing favorable news while reducing the likelihood that unfavorable interim results must be disclosed promptly. This asymmetry is consistent with research on voluntary disclosure, which emphasizes that managerial disclosure incentives depend on the content of the information and the costs of revealing it. In particular, [Verrecchia \(1983\)](#) and [Dye \(1985\)](#) show how disclosure discretion can lead managers to withhold information when disclosure is costly.

Consider a calendar-year issuer that has historically reported quarterly. Under the Proposal, the issuer would make its reporting-frequency election when it files its Form 10-K in March. By that point, management will have observed a meaningful portion of first-quarter operations and will possess internal forecasts concerning the remainder of the quarter. Suppose that early first-quarter performance is unexpectedly weak and that management expects the market to react adversely when the results become public. If the issuer remains a quarterly filer, the poor performance would ordinarily be disclosed in its first-quarter Form 10-Q. If management instead elects semiannual

reporting, the issuer can avoid that filing and defer mandatory interim disclosure until its Form 10-S covering the first six months of the year.

The value of the option depends on second-quarter performance. If operating results recover during the second quarter, the recovery may partially offset the first-quarter weakness in the six-month results, thereby reducing or avoiding the price response that might have followed a stand-alone first-quarter report. If performance does not recover, management is no worse off from a disclosure-timing perspective: the adverse information is eventually revealed, but investor recognition is delayed by approximately one quarter. Thus, the election offers management the possibility of avoiding an immediate negative earnings surprise while placing much of the downside risk of delayed disclosure on investors.⁴

This mechanism also affects which firms are most likely to elect semiannual reporting. The issuers placing the greatest value on a longer disclosure interval may be those expecting unfavorable news, facing greater uncertainty, or deriving larger private benefits from delaying market recognition of poor performance. Evidence from voluntary earnings guidance is consistent with this concern. [Chen et al. \(2011\)](#) find that firms that stop providing quarterly earnings guidance have poorer prior performance, more uncertain operating environments, and fewer informed investors than firms that continue providing guidance. Although the cessation of voluntary guidance is not equivalent to the elimination of a mandatory Form 10-Q, the evidence illustrates that firms' preferences for less frequent disclosure are related to their information environments and expected performance.

The resulting sorting problem makes the reporting-frequency election itself informative. Investors cannot observe whether an issuer selects semiannual reporting because of legitimate proprietary costs, a relatively stable business model, weak expected performance, internal-control concerns, or management's desire to delay unfavorable news. Semiannual filers therefore form a heterogeneous pool that includes both firms with benign reasons for reducing disclosure and firms whose managers benefit from longer periods of informational advantage. Rational investors may respond by imposing an adverse-selection discount on the group as a whole. Accordingly, the private value of the switching

⁴The Proposal would not permit an issuer to wait until the first-quarter Form 10-Q deadline before making its election. The election would be made in the Form 10-K and would remain in effect for the fiscal year. The example therefore assumes that management conditions its choice on first-quarter results observed, and internal forecasts available, by the Form 10-K filing date. The timing option would be even more valuable if issuers were permitted to change frequency later in the year.

option to issuers may create a public cost by increasing uncertainty about the information conveyed by the reporting-frequency decision. The Proposal also leaves open who within the issuer decides the election and under what process, a governance question the release does not address.

The annual nature of the election also weakens the value of quarterly reporting as a commitment to transparency. A firm cannot credibly commit to a durable policy of frequent disclosure when it retains the ability to reverse that policy in a later year after observing unfavorable private information. This concern is related to the broader disclosure-commitment mechanism discussed by [Leuz and Verrecchia \(2000\)](#): the capital-market benefits of greater disclosure depend in part on investors believing that the firm will continue to provide information when disclosure becomes costly. A reporting regime that permits repeated switching makes that commitment less credible.

Finally, longer mandatory disclosure intervals may increase the period during which managers possess material information that has not yet been incorporated into market prices. [Huddart et al. \(2007\)](#) document that insider-trading behavior around Forms 10-K and 10-Q reflects insiders' possession of nonpublic information, while [Cheng and Lo \(2006\)](#) provide evidence that managers strategically coordinate voluntary disclosures and personal trading decisions. Corporate blackout policies can restrict trading during designated periods ([Bettis et al. 2000](#)), but they do not provide investors with the information that would otherwise be supplied by a mandatory periodic report. Extending blackout windows may mitigate some direct insider-trading concerns, but it does not eliminate the underlying information asymmetry or the managerial benefits associated with delaying market recognition of poor performance.

The Economic Analysis should therefore treat the reporting-frequency election as more than a mechanism for matching disclosure costs to heterogeneous issuers. It is also an option whose value depends on management's private information at the time of exercise. Because the option is most valuable when forthcoming information is unfavorable, its exercise may be systematically associated with precisely those circumstances in which timely periodic disclosure provides the greatest investor-protection benefit.

One restriction the Economic Analysis should evaluate is a minimum commitment period for an issuer's selected reporting cadence, coupled with a requirement that an issuer that voluntarily

provides quarterly financial information through earnings releases or similar channels maintain that cadence for the remainder of the period. Such a restriction would blunt opportunistic switching, although it would not mitigate the information-asymmetry, price-discovery, or monitoring costs of a longer reporting interval.

5.2 Other Missing Considerations

Several considerations that would normally appear in a rigorous economic analysis are absent or thin. The omissions include the marginal information value of a quarter of disclosure, the calendar-staggering effect on industry-level information flow, enforcement and fraud-detection implications under AS 4105 and Sarbanes-Oxley Section 302, second-order market-structure effects on analyst coverage, distributional effects between sophisticated and retail investors, and the shift in information acquisition toward private channels and corporate access, which would advantage investors with privileged access over those relying on public disclosure.

6 Additional Reasonable Alternatives

The most direct alternative to reducing reporting frequency is to reduce the cost of what issuers must report. The Commission is already pursuing this path through its concurrent initiatives to modernize Regulation S-K, revise filer-status classifications, and adjust Form S-3 eligibility. Content-based reforms that refocus disclosure on material information and eliminate duplicative requirements lower compliance costs without lengthening the interval during which material information remains private. They therefore deliver the Proposal's principal quantified benefit, paperwork savings, while avoiding the information-asymmetry, price-discovery, and monitoring costs that a longer reporting interval creates.

These concurrent initiatives also bear on the economic baseline. Because the related reforms would change both issuer compliance costs and the informational value of disclosure, the economic effects of altering reporting frequency cannot be measured against a settled benchmark until their scope is fixed. The Economic Analysis should therefore evaluate the Proposal alongside the related reforms, and a reasonable alternative is to defer changes to reporting frequency until the content-

based reforms are finalized.

7 *Conclusion*

The Commission’s semiannual reporting proposal would amend Rules 13a-13 and 15d-13 under the Exchange Act to permit issuers currently required to file quarterly reports on Form 10-Q to elect instead to file a new semiannual report on Form 10-S. The Proposal is framed as an expansion of issuer choice: no company would be required to reduce its reporting frequency, and the substantive content of interim reports would remain largely unchanged. The Economic Analysis therefore treats the rule principally as a mechanism for reducing compliance costs for issuers that voluntarily determine that semiannual reporting better fits their circumstances. That framing is incomplete. A reduction in mandatory reporting frequency affects not only issuer compliance costs, but also the information environment in which investors trade, analysts form forecasts, managers are monitored, and prices incorporate firm-specific information.

Our analysis identifies four principal concerns. First, the Proposal’s monetized cost-benefit analysis depends critically on the assumed 20% take-up rate. Because the quantified benefits and costs scale mechanically with the number of issuers expected to switch, the adoption assumption is central to the rule’s economic justification. Yet the 20% assumption receives limited support and is not accompanied by a sensitivity analysis. Evidence from the United Kingdom’s deregulation of quarterly reporting suggests substantially lower take-up, implying that the Proposal’s estimated compliance-cost savings may be materially overstated. A more informative economic analysis would present benefits and costs across a range of plausible adoption rates rather than relying on a single central assumption.

Second, the Proposal leaves unquantified the capital-market costs associated with reduced transparency. We provide one calibration of those costs using a residual income valuation framework. The estimates show that even a small increase in the cost of equity can generate economically large valuation losses. Under the Commission’s own 20% take-up assumption, a 5-basis-point increase in the cost of equity produces estimated shareholder losses ranging from approximately \$94.2 billion under the CAPM-based specification to \$176.9 billion under the implied-cost-of-equity specification.

These estimates are not offered as a precise forecast of the rule's effect. Rather, they show that the transparency channel is economically material and can be quantified using available data. Once this channel is considered, the potential costs of reduced disclosure frequency are large relative to the Proposal's monetized compliance-cost benefits.

Third, the Proposal understates the economic importance of issuer switching. Allowing issuers to choose their reporting frequency annually does more than match heterogeneous firms with different disclosure-cost preferences. It creates a recurring option whose value may be greatest when management expects unfavorable information to emerge. Firms can continue to disclose favorable news voluntarily while delaying mandatory disclosure of unfavorable interim results that do not independently trigger Form 8-K obligations. This asymmetry creates agency and adverse-selection costs. Investors may be unable to determine whether a firm's decision to adopt semiannual reporting reflects durable compliance-cost savings, legitimate proprietary concerns, weak expected performance, or management's desire to delay bad news. The reporting-frequency election may therefore become informative in precisely the circumstances in which timely disclosure is most valuable. A minimum commitment period for a chosen reporting cadence would limit opportunistic switching, though it would not mitigate the informational costs of a longer reporting interval.

Fourth, the Proposal does not adequately evaluate reasonable alternatives that could deliver its quantified benefits at lower informational cost. The most direct alternative is the one the Commission is already pursuing — content-based reforms that refocus disclosure on material information and reduce duplicative requirements — which lowers compliance costs without lengthening the reporting interval.

The central issue is not whether quarterly reporting is optimal for every issuer. Some firms may reasonably conclude that the costs of quarterly reporting exceed its benefits. The question is whether the Commission's Economic Analysis adequately measures the tradeoff created by allowing issuers to reduce mandatory reporting frequency at management's discretion. In its current form, the analysis quantifies paperwork savings while leaving important capital-market costs, agency costs, switching costs, and reasonable alternatives largely unmeasured. A balanced economic analysis should quantify the cost-of-capital effects where feasible, present sensitivity analysis around take-

up, evaluate the option value created by annual issuer elections, and compare the Proposal with alternatives that better align the reporting-frequency decision with investor interests. Without those additional steps, the Proposal's estimated net benefits provide an incomplete basis for assessing the economic consequences of optional semiannual reporting.

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A Summary of Evidence on Reporting Frequency

Table 2: Empirical Evidence Relevant to Optional Semiannual Reporting

Source and setting	Principal finding	Implication for the economic analysis
Reporting frequency, information asymmetry, and the cost of equity		
Fu et al. (2012) ; United States, 1951–1973	Higher reporting frequency lowers information asymmetry and the cost of equity; two-stage estimates imply roughly a 0.628 percentage-point reduction in the CAPM cost-of-equity measure per additional annual report, with weaker effects for reductions in frequency.	The cost-of-equity channel is economically material and admits sensitivity analysis, though historical magnitudes are not direct forecasts. The weaker reversal effect bears on whether an annually renewable election is a durable disclosure commitment.
Stoumbos (2023) ; United States, listed equities	Information asymmetry rises between earnings announcements, with effective spreads growing about 3% over the interval, and falls when a new report arrives.	Supplies the within-period time path needed to quantify the asymmetry cost of longer reporting gaps in a contemporary U.S. setting; the release cites it but leaves the cost unquantified.
Price formation and the analyst information environment		

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Table 2 continued

Source and setting	Principal finding	Implication for the economic analysis
McMullin et al. (2019) ; United States, 2004 Form 8-K expansion	The mandated expansion of Form 8-K disclosure improved price formation, with the largest gains at firms whose mandated disclosure rose most.	Causal U.S. evidence that more frequent mandated disclosure aids price formation, implying that re-moving two mandated reports each year would symmetrically degrade it.
Nallareddy et al. (2021) ; United Kingdom deregulation, 2014	About 9% of sample firms (45 firms) discontinued quarterly reporting; affected firms showed no investment increase and reduced analyst coverage.	A 9% take-up scenario materially lowers aggregate filing-related benefits relative to the 20% assumption. Increased investment is not a supported benefit, and reduced analyst coverage is a potential unmonetized cost.
Arif and De George (2020) ; non-U.S. firms matched to U.S. industry bellwethers	In non-reporting periods, semiannual reporters' returns are nearly twice as sensitive to U.S. peer earnings news, followed by reversals and elevated volatility and volume.	Reduced frequency can impair price formation as investors substitute imperfect peer signals for missing firm-specific disclosure; these costs may be greatest for smaller firms with weaker information environments.
Butler et al. (2007) ; United States, 1950–1973	Voluntary moves to quarterly reporting improved earnings timeliness, but SEC-mandated increases did not.	The release uses this to discount price-formation concerns, yet it addresses timeliness alone, not the asymmetry or cost-of-equity margins on which mandated increases do show benefits.

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Table 2 continued

Source and setting	Principal finding	Implication for the economic analysis
Reporting frequency and real investment		
Kraft et al. (2018) ; United States, mid-century shifts to more frequent reporting	Mandated increases in reporting frequency were followed by investment declines of about 1.5%–1.9% of total assets, interpreted as evidence of myopia.	The release’s strongest support for a long-termism benefit; the magnitude is contested by better-identified studies and does not isolate Form 10-Q from the quarterly earnings communication that would continue.
Ernstberger et al. (2017) ; European Union, quarterly Interim Management Statement mandate	Firms required to move to quarterly reporting increased real activities manipulation, consistent with short-termism.	Supports a real-effects cost of higher frequency, but relies on real-activities proxies in an EU setting, and its investment implication is contradicted by the Singapore and U.K. evidence.
Kajüter et al. (2019) ; Singapore, market-capitalization threshold (regression discontinuity)	Mandatory quarterly reporting reduced small-firm value by about 5% but produced no myopic investment and no clear informational benefit.	The firm-value effect reflects compliance cost already counted in monetized savings, so reusing it for a long-termism benefit risks double-counting; the null myopia result undercuts the behavioral channel.
Audit quality, comparability, and managerial monitoring		

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Table 2 continued

Source and setting	Principal finding	Implication for the economic analysis
Christensen et al. (2021); proprietary global audit-firm engagement data	Interim audit effort helps remediate internal-control deficiencies before year-end and supports more timely reporting.	Fewer interim reviews could delay detection of misstatements and control deficiencies in the annual statements that semiannual reporting would make the primary disclosure vehicle, an acknowledged but unquantified cost.
De Franco et al. (2011); United States, listed firms	Greater financial-statement comparability raises analyst following and forecast accuracy and lowers forecast dispersion.	Mixed quarterly and semiannual reporting within an industry reduces cross-firm comparability, a cost the release's focus on fiscal-period alignment overlooks.
Downar et al. (2018); European Union, reporting-frequency harmonization	Semiannual reporters show lower valuation of cash holdings than quarterly reporters; the gap narrows with more frequent reporting and is larger where governance or earnings quality is weak.	Indicates a monitoring benefit of higher frequency, consistent with reduced agency costs, that the release notes but does not quantify.

The redundancy of interim filings and the endogeneity of voluntary disclosure

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Table 2 continued

Source and setting	Principal finding	Implication for the economic analysis
Li and Ramesh (2009); United States, EDGAR-era periodic filings	Market reactions to quarterly filings concentrate where the filing is the first earnings disclosure, but annual filings move prices beyond the release and quarter-end filings generate intra-industry transfers.	Qualifies the redundancy premise: interim filings convey information beyond earnings releases, so substitution is incomplete.
Bornemann et al. (2025); Austria, Vienna Stock Exchange prime segment	After the quarterly mandate ended, few firms stopped quarterly reporting but most reduced its content by omitting note disclosures; terminating or curtailing firms experienced a significant liquidity decline.	Voluntary substitutes are endogenous to the mandate and thinner than the mandated reports; hybrid reporting is not content-neutral.
Capital formation and listing decisions		
Ewens et al. (2024); United States, bunching estimation	The regulatory costs of being public total about 4.3% of market capitalization but explain only about 7% of the post-2000 decline in the propensity to go public.	Two Form 10-Q filings are a small share of total regulatory cost, so the rule's capital-formation benefit is at most modest on the release's own citation.

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Table 2 continued

Source and setting	Principal finding	Implication for the economic analysis
<p>Gao et al. (2013); United States, IPO activity since 1980</p>	<p>The post-2000 fall in small-firm IPOs finds little support in a regulatory-cost explanation; economies of scope favor selling to a larger acquirer.</p>	<p>Further evidence that disclosure burden is a minor driver of listing decisions, bounding any capital-formation benefit.</p>