



Institute of Corporate Directors Podcast Transcript: **Be It Resolved: Quarterly reporting is just quarterly chaos.**

Rahul Bhardwaj (0:08 - 1:17): Welcome to Be It Resolved, season two, the podcast where bold ideas meet courageous leadership. I'm Rahul Bhardwaj, president and CEO of the Institute of Corporate Directors in Canada. In each episode, I speak with experts to delve into pressing issues impacting directors and decision-making in the boardroom.

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And my guest today is Catherine McCall. She's the CEO of the Canadian Coalition for Good Governance, better known as the CCGG. This is Canada's foremost organisation representing Canada's leading institutional investors, which collectively manage approximately \$6 trillion of assets.

Catherine brings over two decades of expertise in governance policy, regulatory advocacy, and board engagement. She's a member of the Security Commission's Continuous Disclosure Advisory Committee and serves on the Global Policy Committee of the International Corporate Governance Network. She's a lawyer by training, and she also holds the ICD D designation. Catherine, welcome. Looking forward to the conversation today. That's a lot of experience we're going to bring to the table.

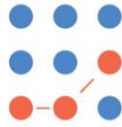
Catherine McCall (1:17 - 1:19): Thank you, Rahul. It's a pleasure to be here.

Rahul Bhardwaj (1:19 - 2:11): And we've got a great resolution for today. I'm going to be asking our listeners to vote on this, and you as well. And the resolution is: Be It Resolved, quarterly reporting is just quarterly chaos.

Now, Catherine, I've got a feeling your members might have a slightly different perspective, but let's set the table. There's been a lot of conversation out there, including from south of our border, about maybe quarterly reporting is too much.

It's too much of a burden. It's not so efficient. By the way, who actually reads all of the disclosure is somewhat in there as well.





So, there's a big push to go to semi-annual. And I know some fans are really pushing for this, and some regulators have been looking at that. We're going to get to that a little later.

But I know your members might have a slightly different perspective. So, give us a little bit of a flavour on who your members are and what they're thinking about when it comes to disclosure.

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Catherine McCall (2:11 - 3:36): Absolutely. I think the important thing to know about our members who are institutional investors is that they are investing, managing money on behalf of others. So, they have a fiduciary responsibility to those clients and beneficiaries, and they must manage it in the best interests of those people.

We're talking about everyone that has any CPP money coming to them because CPP is a member of our organisation, Teachers, Union, OMERS, AHOOP. So, we have a lot of members that are basically looking after the interests of the beneficiaries. So, most Canadians are impacted in one way or another.

And I think that's relevant when we think about institutional investors. So, we have large and small pension funds, asset owners, independent, bank owned. And the fundamental fact about financial information for these investors is that it's the lifeblood of how they make their investing decisions and their voting decisions that are connected with underpinning shareholders' rights.

So, without disclosure, investors would not be able to make these important decisions. And our securities regulation rests on the view that comprehensive and timely disclosure protects investors and is fundamental to a fair and efficient market. So as one of our members put it earlier in the context of quarterly reporting, but I think it holds generally as well, information gives confidence.

Rahul Bhardwaj (3:36 – 3:55): The trust is a great place to start. As Scott echoes of that short-term versus long termism that we've been talking about for a long time. I'm mindful that south of the border, a part of the conversation is that quarterly reporting just rewards short-term thinking. And I'm guessing you wouldn't take that position.





Catherine McCall (3:55 – 4:56): That's right. I think that you can distinguish between a true long-term perspective, which for our investors, and I think when most people use the term, they're thinking in terms of years and not months. So, the difference between a quarterly and a six-month reporting requirement is a difference of a few months.

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And I don't think that's going to get it, but you could argue that even three months would make a difference. But the issue with that is that long-term investors need to monitor their investments on an ongoing basis. A lot can happen in six months.

They need to be on top of that. They need to build the trust that you were referring to. And if there is more information asymmetry between boards, companies, and their investors, there's more leeway for insider advantage, if I could put it that way.

But there is indeed a need for ongoing constant, and I don't want to say constant as in every single day, but there needs to be meaningful ongoing disclosure.

Rahul Bhardwaj (4:56 - 5:17): So, my recollection, even practising as a lawyer in those days, it was that continuous disclosure and quarterly disclosure in particular was critical to building a base and foundation of trust in our capital markets. And I get the sense that in some people's minds, switching to semi-annual is going to perhaps erode that trust potentially.

Catherine McCall (5:17 - 5:56): I think that's right. And I would like to make a distinction between quarterly guidance and quarterly reporting, which I think is very important. Our members are not necessarily in favour of quarterly guidance, which points towards expectations and getting managers and directors to focus on meeting those expectations, which are short-term rather than focussing on long-term strategy.

So, I think getting rid of quarterly guidance makes sense. But quarterly reporting is foundational to building that trust that you're referring to. I mean, investors need to assess the quality of their investment.

If they don't have the information they need, the investment becomes riskier to them. And if it's a riskier investment, they're going to demand more return.





Rahul Bhardwaj (5:57 - 6:24): Now let's go to, and on the other hand, and we both know this conversation to move from quarterly to semi-annual has been in the air for quite some time. The SEC has been looking at it. We're going to get to Canada in a couple of minutes here, but they've been doing this in the EU.

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So, we know that in the UK and throughout Europe, they have optionality on this, and the sky didn't fall over there. So, what's your understanding of disclosure in that state, in the UK and Europe?

Catherine McCall (6:24 - 7:17): That's really interesting because there is a test case. So, there is an example of that both in the EU and the UK, I think in 2014 switched to semi-annual. But what's interesting in those jurisdictions is that a small percentage of companies continue to do semi-annual reporting.

The majority stick with quarterly reporting. And what you can deduct from that, I think very clearly is that their investors are the ones that want that quarterly reporting. So, in the EU, my understanding is from the research is that 11% of companies do semi-annual reporting.

The UK, it's 9%. So those other vast majority of companies are continuing to report for some reason. And I'm assuming that's because their investors want that information.

Rahul Bhardwaj (7:08 - 7:11): I mean, that in the UK, this is still roughly about 10 years old.

Catherine McCall (7:11- 7:13): Yes, that's right. 2014.

Rahul Bhardwaj (7:13 - 7:44): Right. So, I guess the good news is that there are certain contexts in which semi-annual might make sense. We can see that in other jurisdictions.

Now, you and I have talked about corporate governance for years and recognise that it's very contextual. It's not a one size fits all. So, if you had to opine a little bit about quarterly and semi-annual might be a better fit for some than others.

Could you start to think a little bit about what type of companies would be fitting into that semi-annual disclosure?





Catherine McCall (7:44 - 9:00) Interesting question, because I would have to say that the companies that would fit in there would be companies where you didn't think anything was going to happen for six months. And I understand that there is material change reports that you have to report. But as I said earlier, a lot can happen in six months.

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So, I think, and maybe this is a time to bring up what we've just heard, is the Canadian Securities Administrators are starting a pilot project on semi-annual reporting where they will allow venture issuers who have revenues of 10 million or less to report semi-annually rather than quarterly. And I think there is an argument to be made that seems like a good common sense argument that companies that small, the resources required for quarterly reporting impinges on their ability to focus on other things that perhaps might be more important at that stage that are operational or something that they could immediately use those resources for time and money. So, I think there's an argument to say that smaller companies, very small companies, but I would also emphasise that I would not think that could be used as an example for larger companies.

I don't think it can be translated. I don't think our members would go for that. And I also think that it's not the case that the similar circumstances apply to bigger companies.

Rahul Bhardwaj (9:00 - 9:04): So, the CSA now is going out for commentary on this pilot projects.

Catherine McCall (9:04 - 9:05): Yes.

Rahul Bhardwaj (9:05 - 9:11): So, there are a couple of things. First of all, they're going to be seeking commentary, and I'm guessing CCGG will be commenting on that.

Catherine McCall (9:11 - 9:21): Yeah, it's going to be interesting because of what I just said, one size does not fit all. We're firmly committed to that belief. So, we have to look at it in terms of this is a particular part of the markets that this is going to apply to.

Rahul Bhardwaj (9:21 - 9:46): And it's a pilot project. Is what they're actually seeking commentary for. So once again, we're just going to be dipping our toe into this, and there's going to be an evaluation afterwards, which seems like a prudent course of action if you're going to go there.





Catherine McCall (9:34 - 9:35): I agree.

Rahul Bhardwaj (9:35 - 09:56): So, it's not a one size fits all. We've built trust on our capital markets, a certain way under quarterlies. We recognise that maybe that doesn't fit everywhere.

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Other jurisdictions, it's worked. And now we're going to have a look at this over time. Do you think this is something that's going to stick?

Are we going to have that optionality? Would you have an opinion on that?

Catherine McCall (09:56 - 11:09): I think some of it will have to do with what happens in the US. I mean, we've talked about that before Trump talking about moving to semi-annual. I assume that would still be voluntary and all the regimes we're talking about, it's a voluntary option to pick semi-annual.

So, I think if the States moves to that, it's going to make it complicated and challenging for Canadian companies. A lot of them, so many of them are interlisted. So being subject to two different regimes will be complicated.

It raises competitive issues about maybe issuers will be tempted to move to the States where there are less onerous reporting requirements. But I would say on the flip side of that, investors might be more attracted to Canada where you have better disclosure. But I also think it's, and I should say that we have situations where we do have different disclosure regimes.

And I'm thinking particularly with respect to diversity, we have a lot more requirements and Canada survives. Their companies, our issuers, can live with that, and they have, though people have different views. But I think that it won't be determinative, even if States moved to semi-annual, Canada follows because of the evidence out of the UK and the EU.

I think going forward, we will continue to have a quarterly reporting regime regardless.

Rahul Bhardwaj (11:09 – 11:44): It's going to be very interesting to see as the dust settles in this new trading relationship with the U.S. as well, is





what other rules are going to change in terms of accessing the U.S. capital markets, particularly around disclosure. So that can be a topic for another day where we see where this all lands. Now, you can't have a conversation these days about corporate governance without talking about AI somehow.

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And I'm curious to get your thoughts on this around the future of AI as it relates to disclosure, because I've heard the phrase about real-time reporting becoming a possibility. Is that something you even see on the horizon?

Catherine McCall (11:44 - 13:19): Interesting, because you'd think that we'd be inevitably leading that way. But when you think of it in terms of there being a regulatory regime that has certain requirements for any kind of disclosure that have to be met, like you can have selective disclosure, there can be no misrepresentation. If you had real-time, and by that, I mean like tweeting daily, on social media, it just comes up regular.

They would still be subject to regulatory requirements about selective disclosure and fair misrepresentation. I don't know that it will have anything to add if I think of a company trying to go daily if they already have problems with going quarterly. It doesn't seem like much of a desirable goal to me.

I think they'd want more control on what they're putting out, a little more constraints on time and resources. But you'll recall when Elon Musk tweeted about Tesla, that he had arranged for private money to take Tesla private. And the SEC was all over him for misrepresentation.

So that's an example, I'm thinking of one sort of social media and try to disclose that way. And it's at this stage, you can't really do it unless you conform to all of these rules. If you're talking about external parties and third parties that are commenting on social media about different organisations and different companies, that can have an impact.

And we know that that can affect stock price, but it's quite minimal. What I've read is that it impacts the price the first day, but in subsequent days it doesn't. But we know it's out there, but that is a different question than whether the issuer is reporting on its financial conditions.





Rahul Bhardwaj (13:19 - 13:26): It'll be interesting to see how readily accessible AI will make that financial information as we move forward.

Catherine McCall (13:26 - 14:12): It will be. It'll be really interesting because the things that AI is known for, I mean, doing routine tasks and not needing humans to do them anymore. I'm sure there's vast areas in financial reporting where you can do that.

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But the question always comes up about the weaknesses of AI, which as you know, are the biases that you can't seem to get rid of, that are biases in the data. Privacy concerns are huge and hallucinations, like they make mistakes. And unless you're informed and know enough, you don't know enough to catch the mistakes.

So, I think boards are going to have to be really very careful about making sure that they're aware of how AI is being used in their companies and that the right information and ethics is incredibly important in the use of AI.

Rahul Bhardwaj (14:12 - 14:51): Right. And the last thing we need is more hallucinations. And especially as it relates to disclosure, this is important material.

Well, this has been a really interesting conversation. I have a feeling we're going to come back to this as well at some point. So, thank you for this.

And of course, we've got a resolution that's on the table and I can see management teams that would be thinking this is potentially chaos. I have the sense that there's a large and very important investor community that says, slow down. This is really important information but let me get to the heart of it.

The resolution is: be it resolved, quarterly reporting is just quarterly chaos. Which way would you vote on that?

Catherine McCall (14:51 - 14:59): I think I've made my position very clear. It is not quarterly chaos. Quarterly reporting is good for investors, not chaotic.

Rahul Bhardwaj (14:59 - 15:40): Right. And I'd invite our audience members to give this some thought as well. It might have to do whether





you're wearing your investor hat or your management hat as well. So that's to take in mind. So, Catherine, thank you for sharing your insights and your expertise in today's discussion. You really helped advance a lot of thinking in this area.

Friends, if you found today's discussion thought-provoking, we encourage you to subscribe and leave a review on your preferred podcast platform. From the Institute of Corporate Directors in Canada, I'm Rahul Bhardwaj. Until next time.

