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SEC simplifies and updates disclosure requirements

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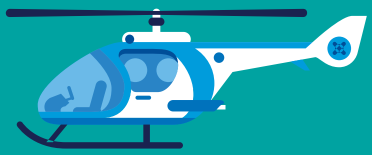

The SEC adopted a final rule[1] that will amend disclosure requirements that were redundant, overlapping or superseded.

Applicability

US issuers, foreign private issuers and investment companies. Some amendments also apply to registered broker dealers, investment advisers and nationally rated statistical rating organizations.

Key facts and impacts

The SEC finalized amendments to some disclosure requirements that were "redundant, duplicative, or superseded" by other SEC disclosure requirements, US GAAP or IFRS.[2]

The majority of the amendments were adopted substantially as originally proposed. They will be effective 30 days after they are published in the Federal Register.

The SEC also previously requested comments on certain disclosure requirements that "overlap" with, but also require information incremental to, US GAAP, to determine whether to retain, modify, eliminate or refer the disclosure requirements to the FASB[3] to consider incorporating them into US GAAP.

In the final rule, the SEC staff requested the FASB to determine whether it will add certain incremental disclosures to its standard-setting agenda within 18 months after publication in the Federal Register.

Why did the SEC amend its disclosure requirements?

The amendments are part of the Division of Corporation Finance's Disclosure Effectiveness Initiative, which is reviewing whether disclosure requirements benefit investors and issuers. The initiative also is part of the Division's effort to implement the 2015 FAST Act's mandate to eliminate outdated and unnecessary provisions of Regulation S-K.

The SEC expects that these amendments will facilitate the disclosure of information to investors and simplify compliance without significantly altering the total mix of information that is currently provided.

What amendments did the SEC make?

Redundant requirements

- Eliminated SEC disclosures also required by US GAAP (e.g. financial information about segments in Regulation S-K, Item 101(b)).
- Eliminated SEC disclosures that have limited usefulness when components of the disclosure are readily determinable from the

[1] SEC Final Rule 33-10532, Disclosure Update and Simplification, August 17, 2018

[2] SEC Proposed Rule 33-10110, Disclosure Update and Simplification, July 13, 2016

[3] The SEC has designated the FASB as the private-sector accounting standard setter for US financial reporting as required by the Sarbanes-Oxley Act of 2002.

company's financial statements (e.g. ratio of earnings to fixed charges).
- Combined existing SEC disclosures into one place (e.g. restriction on dividends).

Overlapping requirements

The changes that will likely have the greatest effect on companies relate to disclosure requirements that are incremental to US GAAP, which the SEC referred to the FASB.

Many of these SEC requirements include bright-line tests that are not required under US GAAP, and will affect disclosures including:

- repurchase and reverse repurchase agreements;
- products and services;
- major customers; and
- income taxes.

If the FASB decides to incorporate some of these incremental disclosures into US GAAP, information that was not previously disclosed by smaller reporting companies and private companies will be required to be in the notes to the financial statements.

Superseded requirements

The SEC made certain changes and deletions that will eliminate outdated or superseded requirements, such as financial statement captions that no longer exist in US GAAP or disclosures that conflict with US GAAP.

KPMG observation

Financial reporting requirements could become more time consuming for private companies and smaller reporting companies if the FASB decides to incorporate these incremental disclosures into US GAAP.

These changes also could affect whether the disclosures would be subject to annual audit or interim review, and, for public companies, an audit of internal control over financial reporting and XBRL-tagging requirements.

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