

## SEC Amends Rules to Eliminate Redundant, Overlapping and Outdated Disclosures

As part of its Disclosure Effectiveness Initiative of the Division of Corporation Finance, the SEC, in Final Rulemaking Release No. 33-10532, Disclosure Update and Simplification, has adopted amendments to certain of its disclosure requirements that are redundant or outdated or that overlap with, or have been superseded by, other SEC disclosure requirements, disclosures required by United States generally accepted accounting principles ("U.S. GAAP") or those required by International Financial Reporting Standards ("IFRS").

The objective of the amendments is to facilitate disclosure of information to investors and to simplify compliance without significantly altering the total mix of information provided.

The amendments are also in response to a provision of the Fixing America's Surface Transportation Act (FAST Act), which mandates the SEC to eliminate provisions of Regulation S-K that are no longer deemed necessary.

*"It is important to review our regulations to ensure that they evolve along with our capital markets and remain effective and efficient," said SEC Chairman Jay Clayton. "Today's amendments are an example of how thoughtful reviews can prompt changes for the benefit of investors, public companies, and our capital markets."*

Additionally, the SEC is referring to the Financial Accounting Standards Board ("FASB") for potential incorporation into U.S. GAAP certain disclosure requirements that overlap with U.S.



GAAP but that call for incremental information. For the time being, pending subsequent action by the FASB, such incremental disclosures are being retained.

The SEC has requested, however, that, within the ensuing 18 months, the FASB determine whether (and which of) the referred disclosure items will be added to its standard-setting agenda. The SEC notes that the incorporation of any of its incremental disclosure requirements into U.S. GAAP could potentially affect all entities that prepare financial statements in accordance with U.S. GAAP, including Regulation A issuers, smaller reporting companies, and non-public entities.

## Final Rule

The SEC Staff identified the following disclosure requirements (with Regulation S-X or Regulation S-K references in parentheses) that are being eliminated because they call for substantially the same information required by U.S. GAAP, IFRS, or other SEC rules (in some cases, only portions of Regulation S-X rules and Regulation S-K Items are being eliminated):

<p><b>Consolidation</b> (Rules 3A-02, 3A-03, and 3A-04 of Regulation S-X)</p>	<p>The rule permitting consolidation of a subsidiary whose fiscal period does not differ by more than 93 days from that of the issuer, and the requirements to (1) consider the appropriateness of consolidation, (2) disclose the entity's accounting policy followed in consolidation, and (3) eliminate intercompany transactions in consolidation.</p>
<p><b>Obligations</b> (Rule 4-08 of Regulation S-X)</p>	<p>The requirement to disclose significant changes in amounts of debt issued subsequent to the latest balance sheet.</p>
<p><b>Income Taxes</b> (Rule 4-08 of Regulation S-X)</p>	<p>The requirement to provide a dollar-or percentage-reconciliation of the effective income tax rate.</p>
<p><b>Warrants, Rights, and Convertible Instruments</b> (Rule 4-08 of Regulation S-X)</p>	<p>The requirement to disclose the title and amount of securities subject to warrants or rights, the exercise price, and the exercise period.</p>
<p><b>Related Parties</b> (Rule 4-08 of Regulation S-X)</p>	<p>The requirement to identify related-party transactions.</p>
<p><b>Contingencies</b> (Rule 10-01 of Regulation S-X)</p>	<p>The requirement to disclose material contingencies in interim financial statements.</p>
<p><b>Earnings Per Share</b> (Rule 10-01 of Regulation S-X and Item 601 of Regulation S-K)</p>	<p>The requirement to present earnings per share (EPS) on the face of the income statement, and the requirement to disclose the computation of EPS as an exhibit in annual SEC filings.</p>
<p><b>Changes in Accounting Principles</b> (Rules 8-03 and 10-01 of Regulation S-X)</p>	<p>The requirement to disclose the date of a change in accounting principle and the reason for the change in an interim period.</p>
<p><b>Interim Financial Statements</b> (Rule 10-01 of Regulation S-X)</p>	<p>The requirements (1) that common control transactions be reflected in the current and prior comparative period's interim financial statements, and (2) to disclose the effect of discontinued operations on interim revenues, net income, and EPS for all periods presented.</p>
<p><b>Insurance Companies</b> (Rules 7-03 and 7-04 of Regulation S-X)</p>	<p>The requirements to (1) provide a description of activities reported in separate accounts, and (2) disclose the method applied in determining the cost of investments sold.</p>

## Overlapping Requirements

The SEC has also deleted (or amended) rules

(1) requiring disclosures that convey reasonably similar information to, or are encompassed by, disclosures in U.S. GAAP, IFRS, or other SEC disclosure requirements, or

(2) calling for disclosures that are incremental to various overlapping disclosure requirements, as addressed in the SEC's final rule.

## Outdated and Superseded Requirements

Disclosure requirements identified by SEC Staff as having become obsolete as a result of the passage of time or changes in the regulatory, business, or technological environment, or as having been superseded by new SEC or U.S. GAAP requirements have been deleted or amended. Such requirements include, among others,

- (1) compliance transition dates that have passed,
- (2) providing the physical address of the SEC's Public Reference Room,

- (3) providing the issuer's Internet address,
- (4) market price information,
- (5) prior references to generally accepted auditing standards (GAAS) that are replaced by references to the Public Company Accounting Oversight Board (PCAOB),
- (6) references to the pooling-of-interests method of recording a business combination, and extraordinary items.

## Referrals to the FASB

The SEC is referring to the FASB for potential incorporation into U.S. GAAP certain disclosure requirements that overlap with U.S. GAAP but that call for incremental information, including disclosures concerning

- (1) discounts on shares,
- (2) income taxes,
- (3) major customers,
- (4) assets subject to lien,
- (5) related parties,
- (6) obligations for which defaults have not been cured or that have been waived,
- (7) interim EPS, and oil and gas producing activities.

## Effective Date

The amendments and deletions become effective 30 days following publication in the Federal Register. Full details of the new rules can be found at: [www.sec.gov/rules/final.shtml](http://www.sec.gov/rules/final.shtml)

## For More Information

Clients should contact their engagement team to discuss these new releases, while friends of our firm and others can contact any member of the PKF Texas SEC Group, or visit [www.PKFTexas.com/SECDesk](http://www.PKFTexas.com/SECDesk).