In our comment letter, we highlight the benefits to investors of quarterly reporting and auditor involvement with quarterly financial statements. We also suggest that the SEC consider making targeted improvements such as streamlining interim MD&A disclosure, in addition to encouraging the FASB to streamline disclosures in interim financial statements.

Regulatory matters

Securities and Exchange Commission (SEC)

SEC adopts rule to modernize and simplify Regulation S-K disclosures

The SEC adopted a final rule to implement the FAST Act mandate to modernize and simplify certain disclosure requirements in Regulation S-K and the related rules and forms. These changes include:

- Allowing registrants to redact confidential information from most exhibits to their filings without filing a confidential treatment request
- Revising the requirements for management’s discussion and analysis to allow flexibility, including allowing registrants providing three years of financial statements to omit discussion of the earliest year and cross-reference its discussion in a previous filing
Removing the example risk factors in Regulation S-K to encourage more meaningful company-specific disclosure

Clarifying the description of property requirements to emphasize that those disclosures should only include properties that are material to the registrant

Requiring XBRL data tagging for items on the cover pages of certain filings, as well as the use of hyperlinks for information that is incorporated by reference and available on EDGAR

The rule also makes similar changes to the rules and forms that apply to investment companies and investment advisers.

The provisions regarding the redaction of confidential information in exhibits are effective upon publication in the Federal Register. The provisions requiring XBRL data tagging are subject to a three-year phase-in, depending on the filing status of the registrant. All other provisions are effective 30 days after publication in the Federal Register.

SEC proposes aligning offering rules for BDCs and closed-end funds with those of operating companies

The SEC proposed amending certain of its rules to align the registration, communications and offering rules for business development companies (BDCs) and registered closed-end funds with those that apply to operating companies. The proposal would allow BDCs and closed-end funds that meet certain filing and reporting history requirements to offer securities using a new short shelf registration statement if they have a public float of at least $75 million, and to qualify for well-known seasoned issuer status if they have a public float of at least $700 million.

The proposal would allow them to follow many of the communication rules related to securities offerings that apply to operating companies. In addition, the proposal would amend structured data requirements, including requiring BDCs to file financial statements using inline XBRL.

The proposal would amend periodic and current reporting requirements, including (1) requiring closed-end funds to provide management’s discussion of fund performance in their annual reports and file current reports on Form 8-K and (2) requiring BDCs and closed-end funds to disclose material changes to investment objectives or policies and material writedowns of significant investments in Form 8-K.

The proposal would also eliminate the requirement for BDCs and closed-end funds to provide new purchasers with a copy of all previously filed materials that are incorporated by reference into the registration statement. Instead, they would be able to make that material available on their websites. Comments are due 60 days after publication in the Federal Register.

SEC staff expects robust, tailored Brexit disclosures

In recent remarks, William Hinman, Director of the SEC’s Division of Corporation Finance, reiterated SEC officials’ expectations that disclosures about the effects of the United Kingdom’s withdrawal from the European Union be robust and tailored to a company’s facts and circumstances.

While acknowledging the uncertainty about the terms of the withdrawal, which is scheduled for 29 March 2019, Mr. Hinman suggested that management consider disclosing information discussed with the board about the nature of the risks of Brexit. Specifically, he said companies should consider qualitative and quantitative disclosure related to risks such as:

- Exposure to new regulatory risk (e.g., uncertainty about applicable laws and regulations and/or transition agreements)
Supply chain risks due to the lack of free trade agreements or changes to customs administrations or tariffs on exports and imports

Possible loss of customers, decreases in revenues or increases in costs resulting from changes in exchange rates or tariffs

Exposure to foreign currency devaluation, exchange rate risk

The risk that material contracts may require renegotiation or termination

Whether Brexit affects financial statement recognition, measurement and disclosure items (e.g., inventory write-downs, long-lived asset impairments, collectability of receivables, assumptions underlying fair value measurements, foreign currency matters, hedge accounting, income taxes)

Mr. Hinman said that, while more companies are making disclosures about Brexit, he sees room for improvement. While acknowledging disclosures will vary greatly across industries and companies, he cautioned “there should not be material gaps between how the board is briefed and how shareholders are informed.”

**Standard Setter updates**

**Financial Accounting Standards Board (FASB)**

**FASB updates the definition of collections**

The FASB issued final guidance that aligns the definition of collections in the Accounting Standards Codification with the definition in the American Alliance of Museums’ Code of Ethics for Museums. The change expands one of the criteria that defines collections. Under the legacy guidance, the collections must be subject to an organizational policy that requires proceeds from sales of collection items to be used for the acquisition of other items for collections. The new definition allows that policy to limit use of the proceeds for that purpose or for the direct care of existing collections. The new guidance also requires an entity that holds collections to disclose its policy for the use of proceeds from sales of collection items, and if that policy allows those proceeds to be used for direct care, to disclose its definition of direct care. The amendments apply to all entities, including business entities, that maintain collections. The guidance is effective for annual periods beginning after 15 December 2019, and interim periods within annual periods beginning after 15 December 2020. Early application of the amendments is permitted for financial statements not yet issued or made available for issuance.

**20 March 2019 FASB meeting**

The FASB discussed its project on Simplifying the balance sheet classification of debt. For details, see the FASB’s Tentative Board Decisions.

**Upcoming meetings**

There are no FASB meetings scheduled for the week of 25 March 2019. For more information, see the FASB’s calendar.
Public Company Accounting Oversight Board (PCAOB)

PCAOB issues staff guidance on CAMs

The PCAOB issued the following staff guidance documents on the requirements for auditors to disclose critical audit matters (CAMs) in auditor’s reports, beginning with reports on large accelerated filers for fiscal years ending on or after 30 June 2019:

- Implementation of Critical Audit Matters: The Basics - A high-level overview of the requirements that may be of interest to preparers, audit committees and investors
- Implementation of Critical Audit Matters: Staff Observations from Review of Audit Methodologies - A summary of observations from reviews the PCAOB’s Office of the Chief Auditor performed of 10 US audit firms’ CAMs methodologies
- Implementation of Critical Audit Matters: A Deeper Dive on the Determination of CAMs - Provides the staff’s observations about the guidance and answers frequently asked questions about how to determine CAMs

Center for Audit Quality (CAQ)

Critical Audit Matters webcast on 1 April

The CAQ will host a webcast, What You Need to Know About the New Auditor’s Communication Requirement, on 1 April 2019 from 1 p.m. to 2:30 p.m. Eastern time. Panelists will be Wes Bricker, Chief Accountant at the Securities and Exchange Commission; Megan Zietsman, Chief Auditor and Director of Professional Standards at the PCAOB; David Kane, EY’s Americas Vice Chair – Professional Practice; Leslie Seidman, independent corporate director; and Todd Castagno, Executive Director at Morgan Stanley.

The requirement to include critical audit matters (CAMs) in the auditor’s report, which will be phased in beginning with reports for large accelerated filers for years ending after 30 June 2019, is the most significant change in auditor reporting in over 70 years. The panelists will discuss lessons learned as public company auditors prepare to implement the requirement, what audit committees and management can do now to prepare and how investors and others may use the information described as CAMs.

Upcoming Thought Center webcasts and podcasts

Information regarding upcoming events can be found on the Thought Center webcasts and podcasts site.