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April 20, 2020

Vanessa A. Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: File Number S7-01-20

RSM US LLP appreciates the opportunity to offer our comments on SEC Release No. 33-10750, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information* (the proposed rule). RSM US LLP is an independent registered public accounting firm serving middle-market issuers, brokers and dealers.

We believe confidence in financial information is fundamental to the successful operation of the U.S. financial markets, and the investor decision-making process. We also recognize there are cost burdens for registrants in providing financial information. We appreciate the Commission's comprehensive evaluation of its disclosure requirements, including its efforts to modernize, simplify and enhance some of the disclosure requirements in Regulation S-K. We support the use of a principles-based approach to the provision of disclosures, as we believe such an approach allows registrants to tailor disclosures that are relevant to and appropriate for their particular circumstances. It also is important that disclosure requirements keep pace with changes in financial reporting requirements in accordance with U.S. generally accepted accounting principles and that duplicative disclosure requirements are eliminated.

We encourage the Commission to consider comments received from investors and registrants regarding the usefulness of, and costs of providing, the disclosures discussed in the proposed rule so as to discern whether the benefits of providing those disclosures justify the cost of compliance. Our comments in this letter address matters in the proposed rule for which we have relevant knowledge and experience as a provider of audit services to registrants. Except as discussed herein, we generally agree with the proposed changes, additions and eliminations described in the proposed rule.

Item 302(a), *Supplementary financial information*

We note that eliminating Item 302(a), *Selected quarterly financial data*, will result in such fourth-quarter information no longer being presented within a registrant's financial statements and therefore no longer being subjected to the auditor's review pursuant to Public Company Accounting Oversight Board Auditing Standard 4105, *Reviews of Interim Financial Information*. We suggest the Commission consider engaging with investors to discern the expected level of assurance desired with respect to such fourth-quarter information and then determine whether this influences the retention of Item 302(a).

If investors do not see a need to retain Item 302(a) generally, we recommend the Commission consider retaining a more narrow requirement to disclose the Item 302(a) information when there is a material retrospective change to be reflected in the current and prior years' quarters.

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Item 303, *Management's discussion and analysis of financial condition and results of operations* (MD&A)

Proposed Item 303(a), Objective

We agree with the concept of adding new Item 303(a), *Objective*, to state the principal objectives of MD&A and streamline the instructions. We agree that emphasizing the purpose of MD&A at the outset of Item 303 can provide clarity and focus to registrants as they consider what information to discuss and analyze. We also agree that it is important to underscore materiality as an overarching principle of MD&A.

However, we have significant concerns with the requirement to “provide a narrative explanation of the registrant’s financial statements that allows investors to view the registrant from management’s perspective.”¹ We believe this is a broad statement for which compliance could be difficult due to the breadth and depth of management’s perspective. Also, this requirement could be interpreted to mandate that registrants disclose otherwise-confidential information (e.g., about competitive advantages, target markets, etc.) that would not be in the best interests of the company, and therefore disclosure of such information may not be in the best interests of investors. We suggest the requirement be revised to reflect a narrative explanation that allows investors appropriate insight into areas management believes are important for managing the business.

Proposed Item 303(b), Full fiscal years

As proposed, Item 303(b) would require registrants to describe, in quantitative and qualitative terms, the underlying reasons for material changes from period to period in one or more line items, including where material changes within a line item offset one another. We believe companies may struggle to comply with this requirement because often the reasons for material changes from period to period can be highly interrelated. We recommend changing this instruction to require provision of quantitative disclosure only if it is reasonably available and will provide appropriate, material and meaningful information to investors.

Further, we believe use of the phrase “and/or of subdivisions” could be confusing as used in the requirement to provide “a discussion of business segments and/or of subdivisions when, in the registrant’s judgment, such a discussion would be appropriate for understanding its business.”² It is our experience that registrants typically focus the MD&A discussion on information disaggregated at the reportable segment level in a manner consistent with their financial statements. We recommend the Commission retain the existing language to maintain the focus on reportable segments.

Proposed Item 303(b)(4), Critical accounting estimates

We agree that adding new Item 303(b)(4), *Critical accounting estimates*, to explicitly require disclosure of critical accounting estimates will be consistent with the Commission’s 2003 MD&A Interpretive Release. However, we believe certain aspects of the proposed disclosure requirements for critical accounting estimates should be clarified as to the nature and extent of the disclosure. We have observed that registrants sometimes find it challenging to consistently implement the Commission’s guidance related to critical accounting estimate disclosures. For example, in discussing how much each estimate has changed, it is unclear whether a company should disclose this change for each of the two or three years presented or only for the most recent year presented. Registrants also struggle in determining a reference

¹ See §229.303 (Item 303 (a)) on page 168 of the proposed rule.

² See §229.303 (Item 303 (b)) on page 169 of the proposed rule.

point (i.e., at the estimate level or at the financial statement level) in determining materiality for disclosure of the methods, assumptions and estimates underlying the calculation of the critical accounting estimate.

Further, with respect to the requirement to discuss the sensitivity of the reported amount to the methods, assumptions and estimates underlying its calculations, it is difficult for registrants to discern which assumptions to discuss because some estimates (e.g., those used by financial institutions in determining current expected credit losses) are based on a multitude of interrelated, detailed and complex assumptions. It is possible that the costs of disclosing the sensitivity and interrelationships of assumptions could outweigh the benefits of doing so. We therefore recommend the Commission consider requiring sensitivity disclosures only for assumptions for which a reasonably likely change would have a material impact on the financial statements.

The proposal defines critical accounting estimates as “those estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation uncertainty and have had or are reasonably likely to have a material impact on financial condition or results of operations.”³ Public Company Accounting Oversight Board Auditing Standard (AS) 1301, *Communications with Audit Committees*, defines a critical accounting estimate as “an accounting estimate where (a) the nature of the estimate is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and (b) the impact of the estimate on financial condition or operating performance is material.” We suggest the Commission consider aligning its definition of a critical accounting estimate with that in AS 1301. Using the same terminology would allow more congruence and focus for those areas auditors discuss with audit committees, and, in turn, registrants disclose to investors.

Environmental, social and governance issues

There has been much discussion about the disclosure of environmental, social and governance issues. We believe this is a complex area that is evolving. Any potential requirements as to disclosures should be very carefully and thoughtfully discerned after receiving much input from registrants—from large accelerated filers to smaller reporting companies—and investors—both large institutional investors and individual investors. It is critical that both the costs and the benefits of such disclosures be carefully weighed before any related requirements are set forth.

We also believe any requirements for disclosures of environmental, social or governance issues should be principles-based with guidelines for materiality. Further, it would be helpful if examples of such disclosures were provided and were beta tested for practicality and usefulness before being released. Therefore, we believe this area is one that should be addressed later in a separate concept release and proposed rule for comment.

Other changes

We believe it would be helpful to registrants if the Commission would include in the final rule its January 2020 guidance on key performance indicators and metrics in MD&A.⁴

We are not aware of any other changes that should be considered to streamline or update MD&A disclosure requirements. However, we advise the Commission to carefully review all of its Regulation S-K

³ See §229.303 (Item 303 (b)(4)) on page 171 of the proposed rule.

⁴ See SEC Release No. 33-10751.

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and Regulation S-X requirements and related staff guidance to ensure that all requirements and guidance align with the final changes resulting from this project.

Compliance date and transition guidance

As to the proposed compliance date of 180 days after effectiveness of the final rule, we believe registrants may need more time to come into compliance with the amended reporting requirements, such as those related to the disclosures of critical accounting estimates. It will be helpful to registrants if the Commission provides transition guidance to allow a registrant to complete its current annual reporting cycle prior to mandatory compliance.

We would be pleased to respond to any questions the Commission or its staff may have about our comments. Please direct any questions to Rich Davisson—Partner, National Professional Standards Group, at

Sincerely,

RSM US LLP

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