



Tel: 312-856-9100
Fax: 312-856-1379
www.bdo.com

330 N. Wabash Ave., Suite 3200
Chicago, IL 60611

April 28, 2020

Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

**Re: File No. S7-01-20
Management's Discussion and Analysis, Selected Financial Data, and Supplementary
Financial Information**

Dear Office of the Secretary:

This letter is the response of BDO USA, LLP to your request for comments regarding the proposal referred to above.

We support the Commission's continued efforts to modernize, simplify, and enhance certain disclosure requirements in Regulation S-K and appreciate the Commission's careful consideration of the feedback provided by multiple stakeholders over the past several years. As we have stated in previous comment letters, we support an objective and principles-based approach to the disclosures contained in management's discussion and analysis (MD&A). We believe a principles-based framework may encourage registrants to better tailor their discussion of the business, financial results and liquidity. Moreover, the use of objectives, principles, and materiality within Regulation S-K allows the disclosure framework to more easily adapt to changes in the environment over time without continuously amending prescriptive requirements. We encourage the Commission to continue its consideration of long-standing requirements that might not elicit information that is considered material to investors (e.g., Item 305 requirements for market risk disclosures).

We have organized our comments related to other areas of the proposal based on the S-K items to which they relate.

S-K Item 301 and Item 302(a)

We note that the proposed changes to Item 301, *Selected Financial Data*, and Item 302(a), *Selected Quarterly Financial Data*, are intended to eliminate mostly duplicative disclosure. While these tables provide a 'one-stop shop' for summarized financial data across periods, we agree that these changes generally do not result in the loss of information about a registrant as the information can be readily found within the financial statements, prior Edgar filings, or inferred by math (i.e., in the case of fourth quarter financial information). However, we believe investors are best positioned to provide feedback about whether the *Selected Financial Data* and Item 302(s) disclosure should be eliminated or retained.



Selected Financial Data

In the proposing release, the Commission observes that Item 303 “already requires disclosure of material trends and such other information necessary to an understanding of the registrant’s financial conditions, changes in financial condition, and results of operations,” such that there isn’t perceived incremental utility associated with the presentation of a five-year financial data table. We do not take exception to this rationale or the omission of the table. However, we observe that Item 303 does not explicitly require disclosure of material trends over a “five-year period.” We believe many registrants will disclose trends for the periods covered by the financial statements (while Item 303(a) is silent, Item 303(b) explicitly refers to requirements based on the periods covered by the financial statements). If the Commission intended Item 303 to elicit disclosure of trend information over a five-year period, we recommend clarifying the requirement to make this objective clearer.

Selected Quarterly Financial Data

If applicable, Item 302(a) financial data illustrates the summarized effects of any retrospective changes on quarterly periods over the last two years. In considering whether the elimination of Item 302(a) results in the loss of information about the effect of a retrospective change in the earliest of two years, we note the Commission’s statement that existing requirements would still elicit such disclosure.¹ While Item 303 requires registrants to discuss unusual events that materially affect reported income necessary to understand operations and known trends and uncertainties, it is not clear that disclosure of retrospective changes to each discrete quarter for the last two years is otherwise required in an annual report. If the Commission indeed expects registrants to disclose the impact of retrospective changes to quarterly data for the last two years within MD&A, we recommend clarifying the disclosure instructions to explicitly require it.

Separately, PCAOB Audit Standard 4105 (AS 4105), *Reviews of Interim Financial Information*, requires the auditor to perform a review of certain periods when a registrant presents the information currently required by Item 302(a). Paragraph 6 of AS 4105 specifically requires the auditor to review an entity’s fourth quarter interim financial information and prior quarterly periods if the auditor is performing an initial audit of an entity’s financial statements and had not previously reviewed one or more of the quarters during the year. If such information is no longer required, it appears AS 4105 will no longer explicitly require a review of the fourth quarter or the prior quarters in an initial audit. The Commission may wish to coordinate with the PCAOB to update this standard and clarify the circumstances in which the audit standards will explicitly require a review of quarterly data (e.g., if a review is required when the information is voluntarily presented).

While we ultimately do not object to the elimination of Item 302(a), we believe that many registrants will still prepare quarterly financial information for the fourth quarter to be furnished in an earnings release (particularly for those registrants with an analyst following). Moreover, auditors may still require review procedures to be performed on fourth quarter information (e.g., to ensure the U.S. GAAP disclosure requirements are met for disposals of components of an entity and unusual or infrequently occurring items recognized in the fourth quarter).

¹ Page 27 of the Proposing Release – “Where fourth quarter results are material or there is a material retrospective change, existing requirements would still elicit this disclosure.”



S-K Item 303(b)(4)

We support the inclusion of explicit disclosure requirements over critical accounting estimates within Item 303(b)(4) of Regulation S-K and the instruction that the discussion thereof should supplement, not repeat critical accounting policies. While the proposed amendments are largely consistent with the Commission’s interpretive release that addresses the disclosure of such estimates, we believe registrants may continue to struggle with disclosing how much each estimate has changed during the reporting period, and the sensitivity of the reported amounts to the methods, assumptions, and estimates underlying its calculation. In that regard, we note the Commission supplemented this requirement by stating that “the discussion should provide quantitative and qualitative information when quantitative information *is reasonably available* (emphasis added) and will provide material information to investors.” In our experience, some registrants do not believe they have such quantitative information available in a manner that facilitates easy and understandable disclosure. In other cases, registrants struggle to envision what such quantitative disclosures might look like for different financial estimates. Accordingly, we believe a single source of guidance that contains illustrative examples for multiple financial statement areas would be useful in improving disclosures of critical accounting estimates. Two such examples could be the disclosure guidance that appears in the Division of Corporation Finance’s (Corp Fin’s) Financial Reporting Manual (FRM) for goodwill impairment (section 9510) and share-based compensation in IPOs (section 9520); however, there are other potential areas where additional guidance or examples would be useful (i.e., allowance for credit losses, revenue recognition, uncertain tax positions).

Critical Audit Matters

While we believe there may be some overlap between the disclosure of critical audit matters and critical accounting estimates, we agree their definitions and objectives are different. Accordingly, the disclosures of each will not always align. However, if a critical accounting estimate is also a critical audit matter, registrants are already permitted to cross-reference to the financial statements to avoid duplicative disclosure (and separately consider the need to supplement the discussion with any additional quantitative information called for by Item 303(b)(4)).

Other

Consolidation of MD&A Guidance

We support the amendments that incorporate MD&A guidance from various interpretive releases into Regulation S-K. We remain optimistic that some of these changes may better facilitate compliance with the guidance and result in improved MD&A disclosure. However, given the multiple other sources containing MD&A disclosure guidance (e.g., the FRM, Corp Fin Disclosure Guidance, Compliance and Disclosure Interpretations, and portions of SEC Interpretive Releases that were not explicitly incorporated into Regulation S-K), we continue to believe the guidance should be consolidated and refreshed to avoid potential confusion about what remains applicable following the final amendments.



We appreciate this opportunity to express our views to the Commission. We would be pleased to answer any questions the Commission or its staff might have about our comments. Please contact Tim Kviz, National Managing Partner - SEC Services, at [REDACTED] or Christopher Tower, National Managing Partner - Audit Quality and Professional Practice Leader, at [REDACTED]

Very truly yours,

BDO USA, LLP

BDO USA, LLP