



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

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Vanessa Countryman, Secretary
Security and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

**SEC Release No. 33-10750; 34-88093; IC-33795; File No. S7-01-20
Management’s Discussion and Analysis, Selected Financial Data, and Supplementary
Financial Information**

Dear Madam Secretary:

We appreciate the opportunity to respond to the Securities and Exchange Commission’s (SEC or Commission) request for comments on the proposed rule, *Management’s Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information* (Proposed Rule). KPMG LLP remains supportive of the SEC’s efforts to modernize, simplify, and enhance Regulation S-K financial disclosure requirements. In this Proposed Rule, we commend the Commission’s expansion of incorporating a principles-based approach to replace certain prescriptive requirements in Management’s Discussion and Analysis (MD&A) (Item 303). Codification of existing Commission guidance will also assist companies by clarifying disclosure requirements in MD&A. Additionally, we support the Commission’s proposal to eliminate Selected Financial Data (Item 301) and Supplementary Financial Information (Item 302). These two proposals reflect the appropriate balance of eliminating redundant information by leveraging technology and simplifying disclosure requirements to facilitate the Commission’s objective to elicit more robust and informative disclosures that focus on material information necessary for an investor’s decision-making needs.

Other proposed amendments to MD&A may require further clarification or modification to achieve the Commission’s intended benefits for both investors and preparers. Our observations and recommendations of the Proposed Rule include:

- Clarifying the proposed disclosure requirements about critical accounting estimates
- Retaining language used in current disclosure requirements to maintain the intended focus and level of disaggregation of the discussion
- Updating SEC staff guidance to include only that which will be applicable under the final rule

Critical Accounting Estimates

We believe disclosures relative to critical accounting estimates (CAEs), if necessary for an investor, would more naturally be included in the notes to the financial statements. As the Commission has proceeded with proposing disclosures about CAEs in MD&A, we are generally

supportive of the disclosures proposed by the SEC that identify and discuss matters relevant to CAEs, such as the methodologies employed and the underlying assumptions. We believe the disclosures of CAEs should follow a principles-based approach and avoid creating prescriptive requirements. We support the proposed instruction to clarify that these disclosures should supplement and not duplicate GAAP disclosures included in the notes to the financial statements.

The Proposed Rule largely codifies existing Commission guidance. However, we recommend the Commission clarify expectations regarding certain disclosures. In particular, it is unclear what management is expected to disclose with respect to the degree of sensitivity of each CAE's reported amount to the material methods, assumptions, and estimates underlying the estimate's calculation. As proposed, we believe this quantitative disclosure could be complex and costly for companies to prepare, as it may lead to a voluminous and unwieldy amount of information that is potentially confusing or misleading. Additionally, the amount of information required to satisfy the proposed disclosure may not be useful to an investor.

This would be particularly true for those CAEs that are affected by multiple interrelated key assumptions. For example, management's estimate of credit losses pursuant to FASB Topic 326, *Financial Instruments-Credit Losses*, could result in a significant number of assumptions that may span multiple pages of management's discussion.¹ To the extent a quantitative sensitivity analysis disclosure is adopted in the final rule, we recommend the Commission clarify the disclosure is limited to those assumptions for which a reasonably likely change would have a material effect on the amounts recognized in the financial statements. Additionally, International Financial Reporting Standards (IFRS) state that "[s]ometimes it is impracticable for a company to disclose the extent of the possible effects of an assumption or another source of estimation uncertainty at the end of the reporting period. In such cases, the entity discloses that it is reasonably possible, on the basis of existing knowledge, that outcomes within the next fiscal year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected."² We recommend the Commission consider allowing for a similar disclosure in the final rule.

The Proposed Rule would also require companies to disclose, to the extent material, how much the estimate has changed during the reporting period. However, we believe investors and other users of the financial information would derive greater benefit from understanding how the underlying key assumptions and inputs to the estimate have changed instead of how much the estimate itself has changed. Consistent with our above comments, we recommend the Commission consider clarifying 'estimate' in this context to be the key assumptions or inputs underlying the estimate recognized in the financial statements. Additionally, the proposed instruction 1 to paragraph 303(b) states that "[g]enerally, the discussion must cover the periods covered by the financial statements included in the filing...". If adopted as proposed, this would require disclosure of how each estimate has changed in all periods presented in each interim report and in the annual report. Due to the observations discussed above, we believe limiting the

¹ ASC 326-20-55-6 highlights that estimating expected credit losses is highly judgmental and provides a list of possible judgments that may be involved.

² International Accounting Standards (IAS) 1, paragraph 131.

discussion to only the most recent reporting period included in an annual report would focus the disclosure on the most relevant material information for investors and other users. However, if the SEC's intent is to require disclosure about past changes in critical accounting estimates during all periods covered by the financial statements in the filing, with respect to transition, we encourage the Commission to make this disclosure requirement prospective as information necessary to provide full disclosure may not have been prepared or retained in prior periods. Similarly for newly public companies, we recommend that this disclosure be required only for the most recent period, with disclosures building in subsequent periods as appropriate.

With consideration given to the above observations and to facilitate the application of the final rule's disclosure requirements, we also suggest the SEC provide illustrative examples of disclosures of CAEs, either in the final rule or as an interpretative release.

Auditor's Responsibility for Fourth Quarter Information Voluntarily Provided

While we support the proposed elimination of Item 302(a), we believe companies may still elect to voluntarily present selected quarterly information, including fourth quarter information, within their annual reports. Paragraph 6 of PCAOB Auditing Standard (AS) 4105, *Reviews of Interim Financial Information*, requires auditors to review the fourth quarter interim financial information when it is required in only an annual filing (i.e. not filed in a Form 10-Q) but does not specifically address the auditor's responsibility concerning disclosures that are voluntarily provided. If providing fourth quarter information becomes voluntary under a final rule, the auditor's responsibility relating to that information is not clear. If Item 302(a) is eliminated in the final rule as proposed, we recommend the SEC coordinate with the PCAOB as necessary to clarify the auditor's responsibility over voluntarily-provided fourth quarter information.

Disaggregated Disclosure Requirements

Companies focus their MD&A discussion on information disaggregated at the reportable segment level, consistent with their financial statements. The proposed deletion of "reportable" in Item 303(b) may be read as requiring companies to shift the focus of that discussion so that it is disaggregated further. Consistent with the principles-based approach of the Proposed Rule, we recommend the Commission include language that retains a focus consistent with current disclosures, but that is supportive of a company's ability to disclose information it considers material to an investor. We recommend the Commission retain the word 'reportable' when referring to segments to mitigate any unintended consequences of companies interpreting this to require discussion at a more disaggregated level than what is material in the context of the required disclosures.

Likewise, we believe expanding Item 303(a) to include product lines as an example of the types of subdivisions may generate similar outcomes. The Proposed Rule expressed that adding 'product lines' as an additional example to Item 303(a) would clarify other subdivisions a company should consider when describing the business. However, this may be interpreted that discussion at the product line level is required, which we do not believe is the intent of the Commission.

SEC Staff Guidance

To mitigate any confusion or misapplication of a final rule, we encourage the staff to undertake a comprehensive review of the guidance currently in circulation and update or eliminate such guidance that will not be applicable under the final rule. Similar to the current announcements on periodic updates to the Financial Reporting Manual, we recommend releasing a summary of all changes to existing guidance concurrent with the release of the final rule.

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We appreciate the opportunity to respond to the request for comments on the Proposed Rule. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Robert Tockman [REDACTED] or Timothy Brown [REDACTED].

Very truly yours,

KPMG LLP

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