



The Association of  
Accountants and  
Financial Professionals  
in Business

April 28, 2020

Vanessa A. Countryman  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

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

Dear Ms. Countryman:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to express its views on the SEC's Proposed Rule (Proposal), *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*, SEC File No. S7-01-20.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at [www.imanet.org](http://www.imanet.org) (About IMA, Advocacy, Financial Reporting Committee).

#### *Overview of our comments*

Our July 29, 2016 letter (File No. S7-06-16) commended the SEC for the comprehensive rethinking of Regulation S-K reflected in that Concept Release (Release). Rather than respond to the many specific questions raised in that Release, we provided thematic approaches that could be used for the changes that would ultimately be made. We are pleased that the Proposal adopts several of those thematic approaches, namely:

**Avoid repetition.** We recommended that disclosures could be streamlined through elimination of requirements for information that had already been included in previously filed documents, in other information provided by registrants, and within filed documents.

**Pursue an objectives-based approach.** Among other matters, we recommended the use of executive summaries and a management approach.

**Proceed cautiously in certain other areas.** We urged continuation of the existing approach to materiality, which is well understood and should not be modified. Also, we supported current SEC disclosure



requirements in reporting public policy and sustainability matters and recommended that further requirements in that area were not necessary.

We are pleased that these approaches have been incorporated in the Proposal. Further, we believe that the changes proposed are consistent with the Commission's goal in the Disclosure Effectiveness Initiative of "... modernizing and improving disclosure to reduce costs and burdens while continuing to provide investors with all material information." Therefore, we strongly support the Proposal overall, particularly the elimination of certain rules that have become outdated or otherwise unnecessary.

In the rest of this letter we comment on most of the key amendments included in the Proposal.

#### *Selected Financial Data – Item 301*

We support the elimination of Item 301, Selected Financial Data. Five-year summary information is easily accessible through prior filings on EDGAR. Further, this information is tagged using XBRL and can be accessed and analyzed electronically as needed. Therefore, the five-year summary data is likely of limited value to most investors and is redundant.

We recognize the requirement under Item 303 for disclosure of material trend information. In certain cases, registrants may believe that summary financial data may assist in presenting disclosure of material trend information. But in most cases any needed material trend information can be provided in MD&A without such data.

#### *Supplementary Financial Information – Item 302(a)*

We support the elimination of Item 302(a), Supplementary Financial Information. The current rule duplicates, for the most part, information that has been reported in prior quarterly reports, which is readily available through EDGAR. We agree that any information not specifically included in prior quarterly reports should still be available to investors as such information would be covered by other MD&A requirements.

#### *Management's Discussion and Analysis of Financial Condition and Results of Operations – Item 303*

Paragraph (b) on *Full fiscal years* proposes that "When the financial statements reflect material changes from period-to-period in one or more line items, including where material changes within a line item offset one another, describe the underlying reasons for these material changes in quantitative and qualitative terms. The reason for material changes must be described to the extent necessary to an understanding of the registrant's businesses as a whole." We agree that this effectively codifies earlier guidance issued by the SEC staff and agree with how it is addressed in the Proposal.

However, we note that the proposed language for this item states that the discussion must focus on "each relevant segment and/or other subdivision of the business and on the registrant as a whole." The current language in Regulation S-K is "each relevant, *reportable* segment and/or other subdivision of the business and on the registrant as a whole." Reportable segments are those determined pursuant to GAAP while the elimination of that word implies the SEC is seeking more detailed reporting. We object to this change and urge that it be reversed. Left unchanged it could create great uncertainty among registrants about what



must be disclosed and could lead to much greater detail than is reasonably useful to investors. The Proposal has not made a case for this change and it should not be adopted.

*Restructuring and Streamlining – Item 303(a)*

The proposed amendments to Item 303(a) will more clearly state the objectives of MD&A and require that registrants state those objectives in an introductory summary to MD&A. As stated earlier, we concur with the use of executive summaries and believe this requirement will help investors better understand the information provided in MD&A. Further, we strongly support the codification of Commission guidance that the discussion in MD&A should enable investors to see the registrant through the eyes of management.

*Capital Resources – Item 303(a)(2)*

We agree that the current requirement to disclose capital resources is out of date. As noted in the Proposal, most registrants have interpreted the current rule to require disclosure of material commitments to acquire physical assets. We understand the goal of clarifying this requirement in a way that does not decrease the flexibility needed by management for a meaningful discussion. However, we are concerned that the proposed rule is overly broad in calling for disclosure of *all* material cash commitments.

We recognize that a registrant's current and expected liquidity are of great interest to investors. But identifying and disclosing all material cash requirements could require extensive new record keeping and controls. Further, with respect to disclosures related to cash commitments for continuation of normal, ongoing operations, we are not convinced that such information would be of value to investors. For example, would registrants need to disclose the remaining balance of all purchase orders for normal inventory purchases? Would they need to disclose expected employee payroll amounts for a certain future period under the assumption that such amounts represent a de facto commitment necessary to maintain future operations? More important, are these and similar normal expected cash outlays of real value to investors?

Rather than requiring disclosure of all material future commitments, we suggest the Commission consider a revised approach that would focus on material cash commitments that are outside of normal annual operations. That would include material cash commitments for acquisitions of physical or intangible assets, business combinations, registrant stock transactions, etc.

*Results of Operations – Known Trends or Uncertainties - Item 303(a)(3)(ii)*

We agree with the proposed change in the language for this item so that a registrant will disclose events that are *reasonably likely to cause*, as opposed to *will cause*, a material change in the relationship between costs and revenues. As noted, this change will conform language to other sections of S-K as well as reflecting current SEC practice.

*Results of Operations – Net Sales and Revenues – Item 303(a)(3)(iii)*

We agree that disclosure should be made of material changes in net sales and revenues and not just for material increases.



*Results of Operations – Inflation and Price Changes – Item 303(2)(a)(iv) and Instructions 8 and 9 to Item 303(a)*

While this disclosure currently is only required when material, many registrants include boilerplate disclosures to avoid questions from the staff or otherwise just to “cross the item off the checklist.” As such, few, if any, disclosures in response to this item have been of any value to investors for many years. Accordingly, we support elimination of this item and agree with the Proposal that registrants would still be expected to disclose this information when it has a material effect on trends.

*Off-Balance Sheet Arrangements – Item 303(a)(4)*

For this item, the SEC proposes that the current more prescriptive off-balance sheet arrangements be replaced with a principles-based instruction. Namely, the Proposal would call for disclosure of off-balance sheet arrangements that have, or are reasonably likely to have, a material future effect.

As the Proposal notes, GAAP requirements have expanded since the issuance of the current SEC rule so that more off-balance sheet arrangements are now disclosed in footnotes to the financial statements. Accordingly, we agree with some Concept Release commenters that this item should be deleted. The SEC requirements largely duplicate GAAP requirements. If there are concerns about specific matters that are not addressed under current GAAP, these concerns could be identified by the SEC and addressed by the FASB.

*Contractual Obligations Table – Item 303(a)(5)*

We support the elimination of the Contractual Obligations Table given that the information therein is largely redundant with that in financial statement footnotes. We agree with those who commented on the Concept Statement that the Table does not provide insight into the registrant’s ability to pay those obligations nor does it present a complete picture of the registrant’s uses of cash.

*Critical Accounting Estimates*

While not all registrants currently disclose Critical Accounting Estimates (Estimates) in MD&A, we believe that this disclosure can be one of the most meaningful parts of that analysis. Therefore, even though there is considerable overlap between footnote disclosures of accounting policies according to GAAP, we strongly support the proposal to require the disclosure of Estimates. We also agree with the proposed definition of “an estimate made in accordance with generally accepted accounting principles that involves a significant level of estimation uncertainty and has had or is reasonably likely to have a material impact on the registrant’s financial condition or results of operations.” Further, we agree that for each material Estimate disclosure that is made the disclosure should include why it is subject to uncertainty, how much it has changed during the period, and the sensitivity of assumptions. We believe that leading practice by larger registrants already reflects compliance with this proposal.

While we support the proposed disclosures for Estimates, we note that determining the “sensitivity of the reported amount to the methods, assumptions and estimates underlying its calculation” will be subject to significant judgment as well as differing interpretations by different registrants. Many of the matters that



will qualify as Estimates will involve several if not numerous underlying inputs that will each require management judgment. Some of the future outcomes of those inputs could offset but others could amplify each other. In short, for many Estimates it may be difficult to describe the potential for future change (sensitivity) in other than the form of a rough range. We urge the SEC to explicitly acknowledge that reality in any final rule. Also, as suggested in one of the questions in the Proposal, we think it would be very helpful for the Commission to issue further guidance on this matter as well as several examples.

We also recognize the overlap with Critical Audit Matters that must now be reported in auditors' reports. However, practice has apparently dealt with any concerns about overlap or conflict and we do not perceive any new issues under the Proposal.

*Interim Period Discussion – Item 303(b)*

We support allowing registrants a choice between comparing their current quarter to either the corresponding quarter of the prior year or to the immediately preceding quarter.

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We would be pleased to discuss our comments with the SEC or its staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA  
Chair, Financial Reporting Committee  
Institute of Management Accountants

