KPMG LLP
345 Park Avenue
New York, NY 10154

July 21, 2016

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

RE: File No. S7-06-16
Business and Financial Disclosure Required by Regulation S-K
Release Nos. 33-10064; 34-77599

Dear Mr. Fields:

We appreciate the opportunity to respond to the Securities and Exchange Commission's ("SEC" or "Commission") request for comments on the business and financial disclosure required by Regulation S-K (the "Concept Release"). As an accounting firm involved in certain aspects of financial reporting by public companies, KPMG LLP has directly observed the many challenges and difficulties registrants encounter in complying with the SEC's rules and regulations. We believe that the SEC can use this opportunity to modernize many of the requirements in Regulation S-K and improve the quality of financial reporting by making revisions to Regulation S-K. However, we acknowledge that as auditors, we are not the investors that use and rely on the information being disclosed, and we strongly encourage the SEC to continue to engage with investors and other users of the business and financial disclosures to fully understand the investors' views on ways that the business and financial disclosures can be improved for their purposes.

Our suggestions and observations focus on the topics included in the Concept Release and include the following, among other things:

- a disclosure framework should be used that incorporates clearly articulated disclosure objectives;

- continual coordination between the SEC, PCAOB and the audit profession is critical if additional auditor involvement with other information contained in filings is contemplated; and

- SEC disclosure requirements that are redundant with U.S GAAP should be eliminated.

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Clear Objectives of Disclosure

We believe that investors and preparers are the best source of input for what information about a public company is relevant and useful. It is our observation that registrants are better able to comply with even very specific disclosure requirements if they have a clear understanding of the objective of the disclosure. To that end, we recommend that the SEC incorporate clear objectives into all of its rules and regulations, including Regulation S-K. For example, Item 101(c) of Regulation S-K, *Narrative description of business*, lists several specific items for disclosure that is required "...to the extent necessary to an understanding of the registrant's business taken as a whole." However, it is not clear from the items listed the reason for the disclosure. Are there specific prospects, risks, or other aspects of the business that the SEC wants registrants to address in the disclosure? For example, Item 101(c)(1)(iii) of Regulation S-K requires "[t]he sources and availability of raw materials." What objective is the SEC seeking to satisfy with this disclosure? Is the objective to provide investors with facts about how a company obtains raw materials or is the objective to inform investors about raw materials that are key to a company's business and how changes in the types, pricing, availability, etc. of those raw materials affect the company's operations and financial results today and their expected impact in the future?

The same may be said for other items, including S-K Item 303, *Management's Discussion and Analysis of Financial Condition and Results of Operations* (MD&A). The SEC notes in the Concept Release that Item 303 has three disclosure objectives.[1] These objectives are very broad. Helpful SEC staff interpretive guidance provided in other places outside of the regulation itself (e.g., Financial Reporting Codification, SEC staff speeches, etc.) could be incorporated into Item 303's objectives. This reorganization could help registrants provide meaningful and responsive disclosures and eliminate a "checklist mentality" toward compliance.

GAAP Redundancy

We believe it important for the SEC to eliminate SEC disclosure requirements that are redundant with U.S. GAAP (or IFRS, as applicable). Identical, or even similar disclosures, to GAAP appear unnecessary considering that accounting standards undergo a high level of scrutiny in the standard-setting process and are subjected to ongoing Financial Accounting Standards Board

[1] The Concept Release states that: "MD&A requirements are intended to satisfy three principal objectives: provide a narrative explanation of a registrant's financial statements that enables investors to see the registrant through the eyes of management; enhance the overall financial disclosure and provide the context within which financial information should be analyzed; and provide information about the quality of, and potential variability of, a registrant's earnings and cash flow, so investors can ascertain the likelihood that past performance is indicative of future performance."

monitoring for needed revisions. We have provided a GAAP overlap table in Appendix A that includes those items subject to consideration in the Concept Release.

Management's Discussion & Analysis

Critical Accounting Estimates and Immaterial Errors

The Concept Release requests comments about whether registrants should be required to disclose critical accounting estimates, including consideration of the content of the SEC's 2002 proposed rule, *Disclosure in Management's Discussion and Analysis about the Application of Critical Accounting Policies*. In our response to that proposed rule, we stated:

> Specifically, we believe that existing disclosures required by GAAP relative to accounting policies and estimates, including Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*, and AICPA Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*, should be enhanced to address certain of the disclosure requirements included in the Proposed Rule. In this regard, we believe the Commission should request a private sector standard setter to undertake a project to enhance or interpret existing GAAP to consider certain disclosures included in the Proposed Rule. We believe that the framework under existing GAAP is adequate, with interpretation and enhancement, to provide the qualitative disclosures addressed in the Proposed Rule and achieve the objectives so stated in the proposing release. [2]

In our response we noted that if the SEC were to proceed with requiring disclosure about critical accounting estimates, we generally supported the disclosures proposed by the SEC in the proposing release that identified and discussed matters relevant to critical accounting estimates, including methodologies employed and underlying assumptions, and how the estimates affect the financial statements. However, we suggested changes in the proposed definition and other revisions to make the requirement more operative. We continue to hold the same views and encourage the SEC staff to review our previous response.

The Concept Release also asks whether the SEC should require management to disclose the nature of its assessment of errors that it determined to be immaterial and therefore were not corrected. We are unclear how this is consistent with the SEC's disclosure objectives (particularly those for critical accounting estimates) since error assessments are one part of a much larger financial reporting process and if an error is not corrected, by its nature, it is considered immaterial. We do not believe a registrant should be required to disclose the nature of its assessment of errors that are determined to be immaterial and not corrected within the financial statements.

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[2] See comments of KPMG LLP, December 9, 2002, https://www.sec.gov/rules/proposed/s74202/kpmg1.htm

Results of Operations

Registrants are required to analyze the results of operations for the specified number of periods covered by the financial statements based on the company's status as a filer (e.g., large accelerated filer, emerging growth company, and so forth). We have observed instances in which a comparison of historical information is not informative to a user of the financial statements for various reasons such as a different basis compared to the predecessor entity after a change in control; one or more significant acquisitions or dispositions; or changes in fiscal year ends.

We believe the SEC should provide companies the necessary flexibility to present comparative information and disclosures in a manner that will be most useful to investors based upon the particular facts and circumstances, especially in instances where the comparison between periods does not provide useful information other than to comply with the requirements. For example, investors might be benefitted if a company could provide combined or pro forma financial information to facilitate comparability.

Auditor Involvement with Information Outside of the Financial Statements

The Concept Release requests feedback on whether or not the SEC should require auditor involvement (e.g., audit, review or specified procedures) with respect to several disclosures outside of the financial statements, namely, Selected Financial Data (Item 301), Supplementary Financial Information (Item 302) and MD&A (Item 303).

PCAOB AS 2710, *Other Information in Documents Containing Audited Financial Statements* (PCAOB AS 2710), requires the auditor to read other information contained in a document that includes the auditors' report and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements on which the auditor has reported. This standard covers all other information included in a registrant's annual reports filed with regulatory authorities under the Securities Exchange Act of 1934 and other documents to which the auditor, at the client's request, devotes attention.

While the auditor is responsible for reading MD&A to comply with its professional responsibility under PCAOB AS 2710, that responsibility is significantly less in scope than an examination or review of MD&A. If an issuer chooses to have its MD&A examined or reviewed, PCAOB AT 701, *Management's Discussion and Analysis*, provides applicable requirements and guidance to the auditor. Despite the existence of that standard, we are only aware of a very limited number of situations in which an attestation report by an auditor on MD&A has been included in a filing with the SEC.

Similarly, an auditor may be engaged to report on selected financial data in accordance with PCAOB AS 3315, *Reporting on Condensed Financial Statements and Selected Financial Data*

(PCAOB AS 3315). The objective of such an engagement is for the auditor to report whether, in the auditors' opinion, the information set forth in the selected financial data is fairly stated in all material respects in relation to the complete financial statements from which it has been derived. PCAOB AS 3315 engagements are rare in our experience.

We recommend that the Commission consult with investors and other users to obtain input as to whether greater auditor involvement with selected financial data and MD&A would be beneficial to them. Increased auditor involvement would likely increase costs for registrants. We also encourage continued coordination between the SEC and the PCAOB, as auditor involvement with information outside of the financial statements is currently being considered by the PCAOB.

As it relates to Supplementary Financial Information, Rule 10-01(d) of Regulation S-X requires interim financial information included in quarterly reports on Form 10-Q to be reviewed by an independent public accountant under PCAOB AS 4105, *Reviews of Interim Information* (PCAOB AS 4105). In addition, the auditor is required to perform a review of fourth quarter interim financial information required to be included in Supplementary Financial Information, even though a quarterly report on Form 10-Q is not required for such period. Therefore, Supplementary Financial Information is generally subject to an interim review in accordance with PCAOB AS 4105. We believe that if Supplementary Financial Information were subjected to a higher level of auditor involvement (i.e., audit), it would result in the unintended consequence of requiring an audit of each quarter before a registrant's Form 10-Q is filed, which would result in additional cost to preparers.

Cross-Referencing/Hyperlinks/Registrant Websites

We believe it is critical that the SEC appropriately consider the technical audit limitations placed on auditors' association with "other information" contained in a document that includes the independent auditors' report. With respect to other information, PCAOB AS 2710.04 states the following:

> "The auditor's responsibility with respect to information in a document does not extend beyond the financial information identified in his report, and the auditor has no obligation to perform any procedures to corroborate other information contained in a document. However, he should read the other information and consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements."

If the auditor were to uncover other information that is materially inconsistent with information, or the presentation of such information, that appears in the financial statements, then the auditor is required to determine whether the financial statements or the auditors' report, or both, require revisions.

The use of external hyperlinks could make it difficult to define what constitutes "the document" as used in PCAOB AS 2710.04. In the event hyperlinking is encouraged by the SEC, we believe it will be critical for "the document" to be well defined and to fall within a registrant's system of disclosure controls and procedures to provide appropriate parameters for auditor involvement. We believe this would require the SEC to work closely with the PCAOB in rulemaking. Lastly, it is unclear how the SEC would ensure the technical functionality of hyperlinks for information required to comply with SEC disclosure requirements.

With respect to cross-referencing, we have observed that it is very common for companies to cross-reference within SEC filings to other sections in that same SEC filing. However, we do not believe it is common to see companies cross reference within the audited financial statements or notes to other parts of the Form 10-K, primarily because of the need to be clear on what disclosures are covered by the independent auditors' report. If the SEC were to encourage the expansion of this type of cross reference, it could be difficult for investors to determine which financial information has been audited or reviewed.

Preferability Letters

In 2000, the Commission adopted the rules that require independent public accountant review of quarterly financial statements included in Form 10-Q. Auditors evaluate the preferability of changes in accounting principles when they perform an interim quarterly review. Furthermore, today there are accounting and auditing standards, such as Accounting Standards Codification ("ASC") 250, *Accounting Changes and Error Corrections*, and AS No. 6, *Evaluating Consistency of Financial Statements*, which address changes in accounting.

The reasons for a preferability letter appear to overlap with the objectives of U.S. GAAP and PCAOB reporting standards. When a company voluntarily changes an accounting method, it must establish preferability and auditors are required to assess the change as part of their interim reviews and audits of the financial statements.

We recommend that the SEC look to input from users of the financial statements about the value they place on preferability letters when considering whether to eliminate the requirement.

With respect to whether the auditors' report should highlight whether a change in accounting principle is preferable under the circumstances, we note that the PCAOB's auditor reporting standard proposal[3] contemplates changes to the content of the auditors' report. The SEC should consider the PCAOB's release and consider the PCAOB's concerns about the specificity of certain audit matters in audit reports.

Quantitative and Qualitative Disclosures about Market Risk

Market-related disclosure requirements in U.S. GAAP have significantly changed since 1997 when Item 305 became effective. Specifically, ASC 815, *Derivatives and Hedging*, ASC 820, *Fair Value Measurement*, and ASC 825, *Financial Instruments*, require certain disclosures that are similar to the information required to be disclosed by Item 305.

We have observed that larger and more complex financial services and commodities entities generally provide robust disclosures when complying with the requirements contained in U.S. GAAP as they relate to the market risk and risk management activities addressed in Item 305. However, smaller and less complex financial services entities and non-financial services entities often use simplistic methods to develop qualitative and quantitative disclosures about market risk, and their Item 305 disclosures often simply repeat the U.S. GAAP disclosures.

We also have observed that Item 305 disclosures do not appear to be as relevant for non-financial services entities, considering that these registrants primarily engage in derivatives activities as a means to hedge (i.e., reduce) their underlying business risks. The correlation between these risk reduction activities and the underlying market risks from these registrants' business activities is not fully contemplated in Item 305, which makes the disclosures less relevant and meaningful for these entities as compared to entities such as financial institutions and commodity enterprises.

Additionally, since 2012, the Enhanced Disclosure Task Force (the "EDTF") of the Financial Stability Board has been surveying certain global and domestic systemically-important banks and investor members of the Financial Stability Board have conducted reviews of selected disclosures made by these institutions.[4] We believe the activities undertaken by the Financial Stability Board are important as these activities include the active participation of investors, analysts and rating agencies who are users of the financial information and disclosures made by companies. We encourage the SEC to consider the recommendations made by the EDTF of the Financial Stability Board and reaction to those recommendations as the SEC considers changes to Item 305.

[3] PCAOB Release No. 2016-003, Proposed Auditing Standard - *The Auditor's Report on an Audit of Financial Statements When the Auditor Expresses an Unqualified Opinion* and Related Amendments to PCAOB Standards

[4] See EDTF 2015 Progress Report at http://www.fsb.org/wp-content/uploads/2015-Progress-Report-on-Implementation-of-the-EDTF-Principles-and-Recommendations.pdf

Management's views regarding its market risk and risk management activities appear to be the most relevant information for the users of the financial statements. In an effort to make Item 305 disclosures more meaningful for a broader range of registrants, we believe the SEC should solicit input from investors and users of filings specifically to obtain their views on whether they would welcome less standardization in Item 305 disclosures in favor of a more flexible disclosure framework that would provide a greater opportunity for registrants to tailor disclosures to more effectively communicate their market risk exposures and corresponding risk management activities.

Industry Guides

U.S. GAAP has evolved in ways that make certain of the Industry Guides redundant or unnecessary since the Industry Guides were initially published. We have included in Appendix A details of the areas where we believe there is overlap between the Industry Guides and U.S. GAAP. We recommend that the SEC update the Industry Guides, at a minimum, to eliminate U.S. GAAP redundancy. Also, we believe the SEC should consider other financial disclosures currently required by the Industry Guides that have been previously considered and rejected by the Financial Accounting Standards Board as unnecessary or not cost beneficial for companies.

We believe it would be helpful for the rules and regulations applicable to each industry be put in one place (e.g., combine the requirements in Article 7 of Regulation S-X, *Insurance Companies*, with Industry Guide 6, *Disclosures Concerning Unpaid Claims and Claim Adjustment Expenses of Property-Casualty Insurance Underwriters*). Also, the Commission should revise the various Securities Act and Exchange Act forms that require Industry Guide information to include specific instructions for inclusion of the information.

Disclosure of Information Relating to Public Policy and Sustainability Matters

We believe investors and other stakeholders are becoming increasingly interested in disclosures regarding sustainability, environmental, social or governance issues and in response, companies are beginning to consider what the disclosures should be and how and where those disclosures should be made within the various SEC filings. Disclosure of sustainability issues may be of greater use to investors and other stakeholders if the disclosures include only those sustainability issues material to an individual company.

While we believe that it is up to preparers and potential users of the information to determine the appropriateness of providing this information in SEC filings, we believe companies should be able to produce effective disclosures that are material on a company specific and industry basis through the use of a framework such as the standards developed by the Sustainability Accounting Standards Board, the Global Reporting Initiative framework or the International Integrated Reporting Council.

Furthermore, we recommend that the Commission communicate with investors and other users to obtain input as to whether auditor involvement with sustainability related disclosures made by companies would be beneficial to them. We also encourage coordination between the SEC and the PCAOB if auditor involvement with sustainability related disclosures is to be considered.

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We appreciate the opportunity to respond to the Concept Release. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Jeffrey Jones [redacted] or Melanie Dolan, [redacted], [redacted].

Very truly yours,

KPMG LLP

cc:

Mary Jo White, Chair
Michael S. Piwowar, Commissioner
Kara M. Stein, Commissioner
Keith Higgins, Director, Division of Corporation Finance
James V. Schnurr, Chief Accountant

S-K		US GAAP	
Topic	**S-K Reference**	**ASC Reference**	**Requirement**
S-K Item 101, Description of Business			
Financial information about segments	Item 101(b)	ASC 280-10-50-20 through 50-22	Segment reporting
Revenue by class of similar products or services	Item 101(1)(c)(i)	ASC 280-10-50-40 and potentially ASC 606	Segment reporting and revenue recognition
Dependence on single customer	Item 101(1)(c)(vii)	ASC 280-10-50-42	Segment reporting
Government contracts subject to renegotiation or termination	Item 101(1)(c)(ix)	ASC 912-275-50	Contractors - federal government
Company-sponsored research and development	Item 101(1)(c)(xi)	ASC 730-10-50 and 730-20-50	Research and development
Information about geographic areas	Item 101(d)	ASC 280-10-50-41	Segment reporting
S-K Item 202, Description of Securities			
(A) Capital stock - rights, obligations and provisions		ASC 505-10-50	Rights, privileges, requirements of securities outstanding
(B) Debt securities		ASC 505-10-50	Rights, privileges, requirements of securities outstanding
(C) Warrants and rights		ASC 505-10-50	Rights, privileges, requirements of securities outstanding
(D) Other securities		ASC 505-10-50	Rights, privileges, requirements of securities outstanding
S-K Item 301, Selected Financial Data			
No overlap			

S-K		US GAAP	
Topic	**S-K Reference**	**ASC Reference**	**Requirement**
S-K Item 302, Supplementary Financial Information			
No overlap			
S-K Item 303, MD&A			
Off-balance sheet arrangements	Item 303(a)(4)(ii)(a)	ASC 460-10-50	Guarantees
Contractual obligations	Item 303(a)(5)	ASC 470-10-50 ASC 840-10-50 ASC 440-10-50 ASC 410, 420, 450, 710	Debt Leases Purchase commitments Other long-term obligations
S-K Item 305, Quantitative and Qualitative Disclosures about Market Risk			
No overlap			
S-K Item 601, Exhibits			
11. Statement re: computation of per share earnings		ASC 260-10-50	Detailed computation of basic and diluted earnings per share is required by U.S. GAAP.
18. Letter re: Change in accounting Principles		ASC 250-10-45-12	Preferability
S-K Item 703, Purchases of Equity Securities by the Issuer and Affiliated Purchasers			
No overlap			

S-K		US GAAP	
Topic	**S-K Reference**	**ASC Reference**	**Requirement**
S-K Item 801 Industry Guides			
Industry Guide: Bank Holding			
II. Investment Portfolio			
A. Book value of investments		ASC 320-10-50	Disclosures - Investments and Debt Securities
B. Maturities of investments over specified periods		ASC 320-10-50	Disclosures - Investments and Debt Securities
III. Loan Portfolio			
A. Types of loans		ASC 310-10-50	Disclosures - Receivables
B. Maturities and sensitivities of loans to changes in interest rates		ASC 310-10-50	Disclosures - Receivables
C. Risk elements			
1. Nonaccrual, past due and restructured loans		ASC 310-10-50 ASC 310-40	Disclosures - Receivables Troubled Debt Restructurings
2. Potential problem loans		ASC 310-10-50 ASC 310-40	Disclosures - Receivables Troubled Debt Restructurings
4. Loan concentrations		ASC 310-10-50 ASC 275-10-50	Disclosures - Receivables Risks and Uncertainties
IV. Summary of Loss Experience			
A. Analysis of loss experience		ASC 310-10-50	Disclosures - Receivables
B. Further breakdown of the allowance for loan losses		ASC 310-10-50	Disclosures - Receivables

S-K		US GAAP	
Topic	**S-K Reference**	**ASC Reference**	**Requirement**
V. Deposits			
D. Time Deposits- Excess of $100,000 and By Maturity Period – Domestic		ASC 470-10-50 and 942-405-50	Debt - Disclosures
E. Time Deposits- Excess of $100,000 and By Maturity Period – Foreign		ASC 470-10-50 and 942-405-50	Debt - Disclosures
Industry Guide: Oil and Gas			
No overlap			
Industry Guide: Real Estate			
No overlap			
Industry Guide: Insurance			
Description of a Business - 2.A.(1)		ASC 944-40-50-3	
Description of a Business - 2.A.(3)		ASC 944-40-50-4F; ASC 944-40-50-4I	
Disclosures - Reconciliation - 2.B.(1)(a) - 2.B.(1).(c) and 2.B.(1)(e)		ASC 944-40-50-3	
Disclosures - Claims Development - 2.B.(2)(a) - 2.B.(2)(c)		ASC 944-40-50-4A	Although the disclosure requirement overlap between SEC and the FASB, the level of aggregation between the two disclosures is different.
Industry Guide: Mining			
No overlap			