July 21, 2016

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File Number S7-06-16,

Dear Mr. Fields:

We appreciate the opportunity to share our views and provide input on the Securities and Exchange Commission's (the "SEC" or the "Commission") Concept Release, *Business and Financial Disclosure Required by Regulation S-K* (the "Concept Release"). We commend the SEC for its comprehensive evaluation of the business and financial disclosure requirements set forth by Regulation S-K.

We encourage the Commission to continue its outreach to investors, preparers, and other stakeholders to obtain feedback in connection with its disclosure effectiveness initiative. We believe this is an important step in continuing to improve the disclosure of decision-useful information.

We have included our recommendations in the attached appendix. Our recommendations are generally limited to those informed by our experiences in working with companies in our capacity as auditors. We have not addressed individual questions but rather provide our observations in broad categories. A common theme throughout our observations is our recommendation that changes to Regulation S-K should generally result in principles-based guidance with clear disclosure objectives. We believe this will improve the quality of information provided to investors.

We would be pleased to discuss our comments or answer any questions that the Commission may have. Please contact John May at [redacted] or Wayne Carnall at [redacted] regarding our submission.

Sincerely,

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APPENDIX

Disclosure Framework

We support a principles-based disclosure framework that articulates clear and understandable disclosure objectives. We believe this type of framework provides flexibility to the preparer to provide information that is relevant and material to a user and assists in reducing repetitive disclosures. This concept should not be perceived as providing less information–on the contrary, it is about providing more decision-useful information in a format that best fits the needs of investors and other users. The Commission has long recognized that disclosure should not be a one-size-fits-all concept. Logically, the disclosure of information about a multibillion dollar multinational company should be very different than that of a start-up company that has no revenue. It has been our experience that there is often a greater relative cost for a smaller company to comply with disclosure requirements. Accordingly, the cost/benefit assessment should consider the differences between a smaller company and a larger one.

Core Business Information

We support a principles-based framework for the disclosure requirements of Item 101–*Description of Business*, which may elicit more decision-useful information than the current framework. Certain information may not be relevant to all companies, depending on the nature of their business and the industry in which the business operates. Further, certain of the disclosure requirements of Item 101 are redundant with existing disclosure requirements under US GAAP. Specifically, Items 101(b), (c), and (d) require certain segment disclosures that duplicate existing US GAAP requirements under FASB Accounting Standards Codification (ASC) 280, *Segment Reporting*. We commend the SEC for issuing Release No. 33-10110 that includes proposals that would address the duplication of certain US GAAP and Commission disclosure requirements. Conceptually, we would support making the core business information more principles based with clear disclosure objectives to allow greater flexibility for registrants to provide information that will be useful to investors. Additionally, this will reduce the need to modify the disclosure requirements as US GAAP changes.

Company Performance, Financial Information and Future Prospects

Selected Financial Data

Item 301 requires certain registrants to provide a table of selected financial data for each of the last five fiscal years. Guidance published by the Division of Corporation Finance[1] indicates that the SEC staff expects the selected financial data to be prepared on a consistent basis for all periods presented in the table (generally 5 years). If the information for the 4th and 5th (earliest) years was previously provided and has not changed, there is generally little cost to including such information. There can be, however, a number of situations in which providing this information can be time consuming and costly, including when:

- information has not been previously provided – such as in an initial registration statement;

[1] See Financial Reporting Manual Section 1610.1

- a disposal has been accounted for as a discontinued operation in accordance with ASC 205, *Presentation of Financial Statements,* which requires retrospective application;
- a voluntary change in accounting principle has been reported in accordance with ASC 250, *Accounting Changes and Error Corrections,* which requires retrospective application;
- a reorganization of entities under common control has been accounted for in accordance with ASC 805, *Business Combinations,* and ASC 250; or
- a new accounting standard has been adopted that requires or for which management has elected retrospective application.

While the required disclosure is limited to a small number of specified financial statement line items, since those line items include income from continuing operations and total assets, a registrant has to effectively prepare a full income statement and balance sheet to derive the information required to be disclosed.

There have been a number of situations in which the Commission or its staff has recognized that the cost of providing this information on a consistent basis for years in excess of those required for the audited financial statements–generally the earliest two years in the five-year table—outweigh the benefit, including the following situations:

- Foreign private issuers are not required to provide the information if they represent that such information cannot be provided, or cannot be provided on a restated basis, without unreasonable effort or expense.[2]
- With respect to the recently issued revenue recognition standard, the SEC staff has indicated that registrants are not required to retrospectively revise the earliest two years in the five-year table provided there is disclosure about the lack of comparability.[3]
- Smaller Reporting Companies are not required to provide selected financial data.

In addition, Congress mandated that the SEC not require Emerging Growth Companies to provide information in selected financial data in excess of that for which audited financial statements are required.

We recommend that the Commission inquire of investors whether the utility of the information included in the five-year table required under Item 301 justifies the costs associated with presenting it (including in the circumstances referred to above).

Auditor involvement
The Commission has asked whether it should require auditor involvement (e.g., audit, review, or specified procedures) in this area. Currently, PCAOB AS 2710, *Other Information in Documents Containing Audited Financial Statements,*[4] requires the auditor to read the other information included outside of the financial statements, such as selected financial data, 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. In addition, an auditor may be

[2] See Item 3.A.1 of Form 20-F
[3] See Financial Reporting Manual Section 11100.1
[4] PCAOB AS 2710 applies specifically to annual reports filed with the SEC (among other documents). We believe auditors generally apply similar procedures in connection with registration statements filed with the SEC.

engaged to report on selected financial data in accordance with PCAOB AS 3315, *Reporting on Condensed Financial Statements and Selected Financial Data*. The objective of such an engagement is for the auditor to opine on whether 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. In our experience, PCAOB AS 3315 engagements are not common.

We recommend that the Commission consult with investors and other users to obtain input as to whether greater auditor involvement with selected financial data would be beneficial to them. We encourage continued coordination between the Commission and the PCAOB, taking into account the PCAOB's current project to address auditor involvement with other information in documents containing audited financial statements.

Supplementary Financial Information

Item 302 requires certain registrants to disclose selected quarterly financial data for each quarter within the two most recent fiscal years ("supplementary financial information"). The requirement to provide supplementary financial information is not burdensome to companies that have previously provided the quarterly financial information. The requirement can, however, be a burden if such information has not been previously provided.

In a Form S-1 for an IPO, although a registrant may be required to provide interim financial information on a year-to-date basis, supplementary financial information is not required because the registrant does not yet have a class of securities registered pursuant to Sections 12(b) or (g) of the Exchange Act. In most cases, supplementary financial information would not be required until the registrant files its first annual report on Form 10-K. But at that time, the current rules require the presentation of the interim information for the prior eight quarters, including periods before the effective date of the public offering. In addition, if a newly public company files a registration statement for a follow-on offering after its IPO, supplementary financial information is required in the follow-on Form S-1 even if the registrant has not yet filed its first annual report.[5] In both cases, selected quarterly financial data may need to be presented for interim periods that were not required to be presented in the IPO registration statement or in quarterly reports on Form 10-Q. Financial statements for those periods may not have been prepared or been subject to a review by the auditor.

We believe the Commission should consider allowing a newly public company to wait until its second annual report on Form 10-K to present supplementary financial data.

Alternatively, the Commission could consider allowing new registrants to present supplementary financial data in registration statements and annual reports that "builds" from the quarterly financial statements that have been separately filed on Forms 10-Q. For example, the supplementary financial information could include (1) year-to-date information for any interim periods disclosed in an IPO registration statement and (2) quarterly information for those periods that are included in subsequently filed Form 10-Qs or derived from the annual financial statements. This approach would be similar to the approach permitted for Emerging Growth Companies to comply with the selected financial data requirement of Item 301. Year-to-date information could subsequently be replaced with quarterly information as the company files its quarterly reports on Form 10-Q. These proposed accommodations could facilitate capital formation and efficient markets by eliminating the time and expense associated with preparing information that was not required in the newly public company's IPO registration statement.

[5] See Financial Reporting Manual Section 1620.1

We also note that there can be situations in which the information in the supplementary financial data would differ from that provided in the Form 10-Q for the corresponding quarters. For example, if a registrant first qualifies as having a discontinued operation or applies a new accounting standard retrospectively in connection with preparing its annual financial statements, the registrant would need to revise prior quarters for the supplementary financial information before it is required to revise the information for purposes of Form 10-Q. In some instances, because of the passage of time, prior periods in Form 10-Q will never need to be revised. Similar to the discussion above regarding Item 301, while the information in the supplementary financial information is limited to a few financial statement line items, the inclusion of net income effectively requires registrants to prepare a complete income statement to provide this information. This process can be time consuming and costly. Given the limited number of line items provided (i.e., net sales, gross profit, income (loss) before extraordinary items and cumulative effect of a change in accounting, net income (loss), and net income (loss) attributable to the registrant), we recommend that the Commission obtain the views of investors and other users to evaluate if the extra cost to provide this information is justified by the benefit of providing it.

Auditor involvement
The Commission has asked whether it should require auditor involvement (e.g., audit, review, or specified procedures) in this area. Currently, Article 10 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 Financial Information*. In addition, the auditor is required to perform a review of fourth quarter interim financial information included in supplementary financial information even though a quarterly report on Form 10-Q is not required for such period. Therefore, supplementary financial information for existing registrants is generally subject to an interim review in accordance with PCAOB AS 4105.

We recommend that the Commission consult with investors and other users to obtain input as to whether greater auditor involvement with supplementary financial information would be beneficial to them. We encourage continued coordination between the Commission and the PCAOB, taking into account the PCAOB's current project to address auditor involvement with other information in documents containing audited financial statements.

Management's Discussion and Analysis

As the Commission considers possible changes to the requirements of MD&A, we believe that a principles-based disclosure framework should be maintained. The Commission has long recognized that for MD&A to be informative, Item 303 cannot be overly prescriptive. For many years, MD&A had been principles-based. Following certain high profile events in the early 2000s, the Commission departed from this principles-based approach when it adopted prescriptive rules in Item 303(a)(4) regarding "Off-Balance Sheet Arrangements" and Item 303(a)(5) regarding "Tabular Disclosure of Contractual Obligations." We recommend that the Commission continue to focus on the disclosure objectives the Commission believes are important and avoid prescriptive guidance as to the form and style of information. Flexibility helps to prevent disclosures from becoming stale. We have provided more specific recommendations below.

Registrants other than smaller reporting companies and other companies in certain specific situations are required to analyze the results of operations for the three-year period covered by the financial statements. There are situations in which a comparison of historical information is not informative to a user of the financial statements because of significant changes to the entity during the periods for which information is presented. These situations include, for example:

- The registrant–as successor to another entity–has prepared financial statements using a different basis (applied acquisition accounting) than the predecessor

- The registrant has made one or more significant acquisitions
- The registrant has made one or more significant dispositions that are not accounted for as discontinued operations
- The registrant has changed its fiscal year end

The Commission's staff has allowed registrants to supplement the historical discussion of the results of operations with a discussion based on pro forma information.[6] In many of these instances, the discussion about the historical results does not provide the investor with useful information.

For the situations listed above, we recommend that the Commission allow a registrant flexibility to substitute a discussion about the results of operations on a historical basis with information on a pro forma basis provided (1) pro forma information that complies with Article 11 of Regulation S-X is provided and (2) the Company discloses that a discussion using historical information would not be meaningful and why the pro forma information is more meaningful.

Consolidation of Guidance

The Concept Release notes that interpretive guidance relating to MD&A is contained in multiple locations. Much of the Commission's guidance has been brought together in Section 501 of the Codification of Financial Reporting Policies. We encourage the Commission to include <u>all</u> applicable Commission rules and interpretive guidance in one place; if any published guidance is no longer applicable, then the Commission should eliminate it.

Contractual Obligations Table

We believe that many of the disclosures required by the table of contractual obligations duplicate information that is already required by US GAAP. Given the redundancy and the existing requirements to disclose information about liquidity and capital resources in MD&A, we recommend that the Commission consider whether Item 303(a)(5) is necessary. We commend the staff for its work on disclosure effectiveness, and note the June 13, 2016 release that confirms the Commission's commitment to address the duplication of certain US GAAP and Commission disclosure requirements.

Critical Accounting Estimates

The requirement to provide critical accounting estimates is detailed in Financial Reporting Release 72 - *Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*. Information about critical accounting estimates can be helpful to an investor and other users of the financial statements in understanding how events and the passage of time will impact the financial statements in the future. While the disclosure has the potential to be very valuable, a number of companies simply repeat the accounting policy disclosures required by US GAAP or do not provide information on the assumptions used and how those assumptions will impact future periods.

We believe it would be beneficial to incorporate a principles-based requirement for disclosure about critical accounting estimates directly into Item 303. To the extent needed to supplement disclosure already provided in the financial statements, disclosures regarding critical accounting estimates should provide an

[6] See Financial Reporting Manual 9220.6-10

understanding of the estimation process and the areas in which changes in the assumptions would have a material impact on the financial statements.

While the disclosure requirement for critical accounting estimates should be principles based, we believe that interpretive guidance can also be beneficial. For example, we believe that the interpretive guidance provided in the Division of Corporation Finance's Financial Reporting Manual in Sections 9510 and 9520 on goodwill impairment and share-based compensation in IPOs are illustrations of information about accounting estimates that would be useful to investors and other users. Additional interpretive guidance would be beneficial in eliciting information for users of the financial statements.

Immaterial Errors

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. These items are evaluated on a quantitative and qualitative basis consistent with Staff Accounting Bulletin Topics 1-M and 1-N. We believe that analyses regarding a conclusion that such items are immaterial could result in extensive disclosures that we believe would be unnecessary and would impose an unreasonable and costly burden.

Role of the Auditor

The Commission has asked whether it should require auditor involvement (e.g., audit, review, or specified procedures) in this area. The auditing literature provides a framework under which a registrant may engage its auditor to examine or review MD&A. In our experience, however, these types of engagements are rare. Currently, as discussed above, professional standards generally require the auditor to read other information (including MD&A) in a document that includes audited financial statements 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 work is substantially less in scope than an examination or review of MD&A. We believe the Commission should consult with investors to obtain feedback on whether the market would value greater auditor involvement with MD&A.

Risk and Risk Management

Risk Factors

We agree that risk factor disclosures pursuant to Item 503(c) could be improved. When properly prepared, this information can be useful to an investor in understanding the company and the risks associated with investing in that company. We do not recommend requiring registrants to reduce the length or number of risk factors included in a filing.

We do believe the Commission should seek input from the user community as to whether risk factor disclosure would be more useful if registrants were permitted to disclose whether and how they plan to address or mitigate particular risks and how it may impact their strategy. While this need not be a required disclosure, particularly if, as pointed out by the Commission, it would involve disclosing confidential or proprietary information and could cause competitive harm, how risks are being managed may be important information for investors to understand. Investors may also be interested to know when there is no plan for risk management or risk mitigation. While we understand the staff's historical concern that such disclosure could "dilute investors' perception of the magnitude of the risk," we believe the Commission should solicit investor input as to whether investors would want additional information that would allow them to evaluate registrants based on how they respond to risks. Additionally, the ability to disclose how risks are mitigated may result in more tailored disclosures about how the risks specifically affect the registrant, thereby reducing generic risk factor disclosures.

The United Kingdom Listing Authority requires disclosure of risk factors similar to that of the Commission. However, they also allow a discussion on how companies mitigate such risks.

In terms of how Item 503(c) is currently drafted, we believe it would benefit from a disclosure objective statement and the inclusion of examples of risk factors applicable to well-established Exchange Act registrants. The examples provided in Item 503(c)(1)-(5) appear to be applicable to a company that is about to have its initial public offering.

Quantitative and Qualitative Disclosures about Market Risk

Item 305 may be most relevant to large financial services institutions and certain commodity institutions that are engaged in market making activities or actively use derivative instruments as part of their risk management practices. Other entities, including smaller financial institutions and registrants that are not financial institutions, often provide standardized descriptions of market risk that provide little clarity regarding their unique market risks and risk management activities.

Non-financial institutions primarily use derivatives to hedge their underlying business risks. The correlation between the risk reduction from this derivative hedging activity and the underlying market risks from these registrants' business activities is not fully contemplated in Item 305, which results in disclosures that are less relevant and less meaningful in the context of these companies as compared to financial institutions and sophisticated commodity enterprises. For example, a US registrant that has hedged a receivable denominated in euros with a euro forward contract would be required to provide disclosure about the euro forward contract but not about the underlying euro-denominated receivable. The same registrant would not need to disclose any information about the euro-denominated receivable if it elects not to hedge the exposure. This leads to a circumstance where more information is required where there is presumably less risk.

We also recognize that the disclosure required by US GAAP for derivatives and financial instruments have expanded significantly since Item 305 took effect in 1997. Specifically, ASC 815, *Derivatives and Hedging*, ASC 820, *Fair Value Measurement*, and ASC 825, *Financial Instruments,* require disclosures that are substantially similar to the information required to be disclosed by Item 305. For certain large financial services institutions, Item 305 provides additional clarity to the requirements contained in US GAAP as they relate to market risk and risk management activities. However, for smaller financial services institutions and non-financial services institutions, which often use standardized methods to provide qualitative and quantitative disclosures about market risk, the information provided under Item 305 may duplicate the US GAAP disclosure requirements. We recommend that the Commission evaluate if the redundancy can be eliminated while not sacrificing the needs of investors.

In an effort to make Item 305 more meaningful for a broader range of registrants, we believe the Commission should solicit input as to whether less prescriptive requirements would allow registrants to tailor their disclosures to appropriately reflect their holistic market risk exposures and corresponding risk management activities. This may result in more qualitative disclosure and less quantitative disclosure.

Industry Guides

There is information included in the Industry Guides that is important and useful. However, as some of them have not been updated recently, they also contain information that is out of date and/or superseded or duplicative of a requirement for disclosure under US GAAP. We recommend that the Commission make updated industry guides a part of Regulation S-K, similar to what has been done with oil and gas industry disclosures and as proposed with respect to mining operations.

Disclosure of Information Relating to Public Policy and Sustainability Matters

Disclosure of public policy and sustainability matters (commonly referred to as environmental, social, and governance (ESG) topics) has become more mainstream, as companies respond to expectations for more transparency around how these matters affect long-term business strategies and operations. ESG reporting has become part of the information some investors use to evaluate companies. In today's economy, companies' values are increasingly underpinned by intangibles such as brand, talent, and customer base. The way companies create value and the context in which they operate are also changing. The information needs of investors are also changing, and they increasingly expect greater transparency about how companies are addressing sustainability risks and opportunities.

We agree with Chair White's recent comments that the disclosure regime needs to evolve to continue to provide the total mix of information necessary for the "reasonable investor," and that the priorities of that "reasonable investor" also continue to evolve. ESG reporting is one such evolving area. The Commission has the opportunity to meaningfully enhance the dissemination of decision-useful ESG information by providing new guidance to issuers on public policy and sustainability matters. Doing so is consistent with its efforts to "re-focus the lens of disclosure to better serve today's investors."[7]

Our surveys, research, and discussions with issuers and investors confirm that investor interest in sustainability matters is increasing. We believe this is, in part, driven by several macro trends. One trend is that as economies shift away from bricks-and-mortar to technology-driven models, the "implied" intangible asset value (the difference between a company's market value and book value) has grown. This implied intangible asset value comprises 84% of the total market value of the S&P 500, compared to 32% 30 years ago[8]. Other macro trends, like the focus on resource scarcity, diversity, and human rights, increasingly pose both direct risks to operations and indirect risks (e.g., overregulation, which is cited as CEOs biggest concern in our annual CEO survey). Standard & Poor's has highlighted the prevalence of environmental factors influencing credit ratings as a "direct and material impact on credit quality."

Our 2015 Annual Corporate Directors Survey found that since 2011, the proportion of directors stating that their strategy horizon was five years or more increased by 20%. As planning and reporting time horizons increase, they will naturally bring longer-term sustainability matters into scope. Additionally, our 2016 Global Investor Survey found that over 60% of investors agree that business success in the 21st century will be redefined by more than financial profit.

Our surveys indicate there is a wide range of ESG topics that are important and that vary depending on the industry. Our research[9] indicates that investors are most dissatisfied with the following disclosures related to sustainability information (in descending order):

- How risks and opportunities are identified and quantified in financial terms

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[7] Chair Mary Jo White. "Focusing the Lens of Disclosure to Set the Path Forward on Board Diversity, Non-GAAP, and Sustainability." Keynote Address, International Corporate Governance Network Annual Conference: Speech.
[8] Ocean Tomo LLC, *Annual Study of Intangible Asset Market Value,* 2015.
[9] PwC's 2014 Sustainability Survey – Sustainability goes mainstream: Insights into investors views

- Comparability of sustainability reporting between companies in the same industry
- Relevance and implications of sustainability risks
- Key performance indicators related to each identified material issue
- Internal governance of sustainability issues
- Process used to identify material sustainability issues

We recommend that any Commission guidance related to the disclosures of ESG topics be principles-based. We do not recommend prescriptive ESG reporting requirements for a defined range of discrete topical areas given the risk that such requirements may arbitrarily limit disclosures of unique importance to some issuers or overly burden other issuers when the specified topics may not be relevant.

A principles-based approach could build on existing Item 303 MD&A guidance related to the disclosure of material trends and uncertainties and might focus on:

- providing transparency around the governance and strategic response to material ESG-related matters;
- enhancing disclosure of the (1) qualitative description of ESG topics/uncertainties, (2) their potential impact (e.g., reduced customer demand, scarcity of key resources), (3) management's strategy to address such impact, including expected time horizons, (4) any key performance indicators used to monitor outcomes, and (5) potential short- and long-term financial impact of the topic; and
- encouraging consistency and comparability across companies, potentially through use of recognized ESG reporting frameworks, such as those issued by the Sustainability Accounting Standards Board or the Global Reporting Initiative.

In summary, ESG reporting in standalone corporate sustainability reports has become routine for larger companies. 81% of the S&P 500 issued such reports in 2015 compared to 20% in 2011.[10] We believe enhanced ESG disclosure guidance could help provide investors with high-quality information with which to make informed investment and voting decisions.

<u>Exhibits</u>

<u>Preferability Letters</u>

When the Commission amended Form 10-Q in 1975 to require an accountant's letter stating whether a change in accounting principle is, in the accountant's judgment, preferable, an auditor's pre-filing review of a registrant's interim period financial statements included in Form 10-Q was not required. Accordingly, the requirement to file a preferability letter in a Form 10-Q served to involve independent auditors when registrants made voluntary changes in accounting principles during interim periods. However, in 2000, the Commission adopted rules requiring independent auditor review of quarterly financial statements included in Form 10-Q.

[10] Governance & Accountability Institute, Inc. 2016 Research – www.ga.institute.com

ASC 250-10-45-2 requires that the registrant justify that a voluntary change in accounting principle is preferable. ASC 270-10-45-13 requires the registrant to provide the disclosures required by ASC 250 in interim financial statements that report a change in accounting principle. While not an explicit requirement in the auditing standards for interim reviews, we believe that, in practice, an auditor performing an interim review would question a change in accounting that he or she did not believe was preferable. Auditors would be required to assess the assertion of preferability in connection with its annual audit. Moreover, as referenced in the Concept Release, there are now more prescriptive accounting and auditing standards such as ASC 250, *Accounting Changes and Error Corrections*, and AS 2820, *Evaluating Consistency of Financial Statements*, that provide guidance when there is a change in accounting policy.

In light of these developments, we believe that the objective of the preferability letter is sufficiently addressed by US GAAP and PCAOB reporting standards. As such, we believe the current guidance on preferability letters is no longer necessary.

As noted in the Concept Release, the form and content of preferability letters vary as there are no content requirements in Item 601 other than a statement that the change was preferable. If the Commission retains the requirement for preferability letters, we believe investors and other users would have the best insight to provide input on whether additional or more detailed information would be helpful to them.

With respect to whether the auditor's report should highlight whether a change in accounting principle is preferable, we note that the PCAOB's auditor reporting model proposals[11] contemplate changes to the content of the auditor's report. The Commission may wish to consider the PCAOB's proposal related to audit reports as part of its consideration of this question.

Cross-Referencing/Hyperlinks/Registrant Websites

We support the Commission's objective of improving the effectiveness of disclosure by streamlining information included in documents filed with the SEC. With respect to mechanisms such as external hyperlinks and cross-referencing, there are a number of practical implications that must be addressed before proceeding. Specifically, the Commission would need to address the professional requirements and legal limitations when an auditor is associated with "other information" contained in a document that includes the independent auditor's report. 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 determines that other information is materially inconsistent with the financial statements, then the auditor is required to determine whether the financial statements or the auditor's report require revisions; if no revision to the financial statements or auditor's report is required, then the auditor should request the client to revise the other information.

In order to comply with professional standards, it is important for the auditor to be able to identify the "other information" contained in a filing that includes the auditor's report. The introduction of external

[11] PCAOB Release Nos. 2013-005 and 2016-003

hyperlinks, which are not common in today's filings, could make it difficult to establish what constitutes "the document" referred to in PCAOB AS 2710.04.

The use of external hyperlinks could also pose problems with respect to an auditor's ability to fulfill its responsibilities under AS 2710 if the information accessed by an external hyperlink changes after the related document is filed. There would be similar issues with potentially greater implications because of differences in liability standards if a Securities Act Registration Statement included external hyperlinks.

In the event the use of external hyperlinks is encouraged, 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 in order to provide appropriate parameters for auditor involvement. We encourage the Commission to work closely with the PCAOB in this regard. We believe legal certainty and a clearly defined perimeter of the auditor's responsibility are preferable to a principles-based standard in determining what constitutes "the document" for purposes of fulfilling the auditor's responsibilities under PCAOB AS 2710.

With respect to cross-referencing, it is currently common for registrants to cross-reference within their Commission filings to other sections in that same filing. Commission rules generally allow such cross-referencing; however, it is rare to see cross references in the audited financial statement footnotes to other sections in the Form 10-K because of the need to be clear on what disclosures are covered by the auditor's report. Expanded use of this type of cross-reference may make it difficult for a reader to determine what information is part of the financial statements – and therefore covered by the audit or review performed by the auditor.