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Office of the Secretary  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-1090

**File No. S7-15-16**  
**Disclosure Update and Simplification**  
**Release Nos. 33-10110; 34-78310**

Dear Office of the Secretary:

We appreciate the opportunity to respond to the Securities and Exchange Commission's ("SEC" or "Commission") request for comments on the proposed rule *Disclosure Update and Simplification* (the "Proposed Rule"). KPMG LLP fully supports the efforts of the SEC to improve public company disclosure by amending requirements that over many years have become redundant, duplicative, overlapping, outdated, or superseded. Furthermore, we believe these proposed amendments may simplify the compliance efforts of preparers and their auditors.

We previously submitted responses to the SEC's requests for comments related to *Business and Financial Disclosure Required by Regulation S-K* (File No. S7-06-16)<sup>1</sup> and *Effectiveness of Financial Disclosures about Entities Other than the Registrant* (File No. S7-20-15)<sup>2</sup>. Our responses to each of the SEC's requests, including the Proposed Rule, support the SEC's initiatives to review its rules and regulations in assessing whether the financial information being provided to investors and users of the financial statements is useful and relevant while considering the costs and benefits of providing the information.

Our observations in this letter focus on the topics included in the Proposed Rule and are summarized as:

- Interactions with the Financial Accounting Standards Board (FASB) - We believe the FASB has appropriate due process in place to evaluate the need for new or amended financial disclosure requirements and therefore, incremental SEC financial disclosure requirements should be minimized. The SEC's rules and regulations should be regularly updated to reflect new or amended accounting standards.

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<sup>1</sup> KPMG's comments related to *Business and Financial Disclosure Required by Regulation S-K* (File No. S7-06-16) can be located at <https://www.sec.gov/comments/s7-06-16/s70616-246.pdf>

<sup>2</sup> KPMG's comments related to *Effectiveness of Financial Disclosures about Entities Other than the Registrant* (File No. S7-20-15) can be located at <https://www.sec.gov/comments/s7-20-15/s72015-36.pdf>



- Disclosure requirements within the financial statements – We believe determining what financial disclosure is material to investors should not rely on bright-line tests or a distinction between smaller reporting companies and larger reporting companies.
- Proposed Rule amendments – We generally support the SEC’s actions as detailed in the Proposed Rule with some exceptions and further observations.

### **Interactions with the Financial Accounting Standards Board**

The SEC has designated the Financial Accounting Standards Board (“FASB”) as the private-sector accounting standard setter for Generally Accepted Accounting Principles in the United States (“U.S. GAAP”). Therefore, as it relates to disclosure within the financial statements, in general, KPMG believes the SEC should minimize financial statement disclosure requirements incremental to U.S. GAAP established by the FASB.

We have observed that having multiple sources (i.e., regulators and standard setters) for financial statement disclosure requirements can lead to confusion by preparers of financial statements and adds complexity that can be avoided. Therefore, eliminating or minimizing multiple sources of requirements for the same subject matter would help registrants provide full and complete disclosure.

We note the FASB has a rigorous due process in place to set its standard setting agenda, evaluate proposed new accounting standards and perform post-implementation reviews of recently implemented accounting standards. We believe the FASB’s disclosure requirements have appropriately changed over time to address the information needs of investors, but also have changed to reflect changes in business and economic environments. The SEC is responsible for monitoring overall the FASB’s compliance with its role as standard setter and also serves as a participating observer on the Emerging Issues Task Force (EITF) of the FASB, which is responsible for the timely identification, discussion, and resolution of financial accounting issues within the framework of the FASB’s Accounting Standards Codification. As highlighted in a speech recently at the 2016 AICPA’s National Conference on Banks and Savings Institutions by Wesley Bricker, in his role as the Interim Chief Accountant, “the SEC staff is involved in the implementation discussions with respect to all of the key priorities that have been completed by FASB and the IASB, including revenue recognition and leases.” We believe these roles provide the SEC with the opportunity to appropriately participate and monitor the FASB’s public standard setting process.

We support the SEC’s referral to the FASB of many of the disclosure requirements identified in the Proposed Rule. When subjected to the FASB’s due process those disclosure requirements may not be incorporated into U.S. GAAP. In the event they are not incorporated into U.S. GAAP, we encourage the SEC to consider the feedback received during the FASB’s due process, which would include the views of investors and preparers of the financial statements, when evaluating whether to keep such disclosure requirements in its own rules and regulations.



## Regular Review of Disclosure Requirements

As we noted previously, disclosure requirements have changed over time to address the information needs of investors and to reflect changes in business and economic environments. As a period of significant and rapid change in accounting standards will occur over the next several years as preparers of financial statements begin to adopt the FASB's new standards on revenue, leasing and impairment of financial assets, among others, there will be significant changes to the presentation and disclosure requirements in accordance with U.S. GAAP, which may supersede, be redundant to, or overlap current SEC disclosure requirements.

Consistent with the mandate by the Fixing America's Surface Transportation Act for the SEC to eliminate disclosure requirements that are duplicative, overlapping, outdated or unnecessary, we believe the SEC should continue to conduct regular, timely reviews of its disclosure requirements. For instance, in response to final accounting standards recently issued by the FASB for ASC Topic 606, *Revenue from Contracts with Customers* and ASC Topic 842, *Leases*, we believe the SEC staff should identify now any related disclosure requirements that should be revised to eliminate redundant, overlapping and outdated requirements. For example, we noted the following examples of current SEC disclosure requirements that could be redundant or overlapping with the disclosure requirements of ASC Topic 606:

- S-X Rule 5-02.3(c) requires disclosure about amounts due under long-term contracts;
- S-X Rule 5-02.5 is titled, *Unearned income*;
- S-X Rule 5-02.6 requires certain detailed disclosure of inventoried costs relating to long-term contracts or programs; and
- S-X Rule 5-03(b)1(a) requires a specific approach to disaggregation of revenue.

If the SEC's disclosure objectives differ in some way from those reflected in accounting standards promulgated by the FASB, those differences, we believe, should be clearly communicated and explained.

## Current FASB Projects – Materiality in Disclosures and Disclosures in Interim Reports

As the SEC is aware, the FASB's Disclosure Framework project currently includes certain proposals, among others, that address the FASB's Concepts Statement definition of materiality, the use of materiality by reporting entities, and interim reporting.

### *Application of Materiality to Disclosures*

We do not believe the FASB's Disclosure Framework project as it relates to assessing whether disclosures are material will have an effect on the amendments that are included in the Proposed Rule if there are no changes to the definition of materiality by the SEC and FASB.

### *Interim Reporting*

The SEC requires interim period disclosure where events, which have a material impact on the registrant subsequent to the end of the most recent fiscal year, have occurred<sup>3</sup>. The FASB proposes

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<sup>3</sup> Regulation S-X, Article 10 – *Interim Financial Statements*



to amend Topic 270, *Interim Reporting*<sup>4</sup>, to reflect that disclosures about matters required to be set forth in annual financial statements should be provided on an updated basis in the interim report if there is a substantial likelihood that the updated information would be viewed by a reasonable investor as significantly altering the “total mix” of information available to the investor. We believe the FASB and SEC’s objectives of interim reporting are consistent, and therefore, we support the SEC’s referral to the FASB of interim period disclosures discussed in the Proposed Rule.

### **Disclosure Location Considerations**

#### *Prominence*

In a data centric environment, the physical location of a disclosure within a filing has become, we believe, increasingly less important due to the use of electronic search tools by the users of filings and auditors. However, in a document centric environment where users are reviewing filings in paper copy, we continue to believe that the prominence of a disclosure could impact a user.

#### *Financial Statements – Inside Versus Outside*

We do not believe including forward-looking statements, that would otherwise be subject to safe harbor under the Private Securities Litigation Reform Act of 1995, in the notes to the financial statements is consistent with the objectives of financial statements. If the SEC were to consider recommending that forward-looking statements be included in the notes to the financial statements, we believe the PCAOB, through its standard setting process, would need to provide the necessary rules to auditors as to the nature and extent of the auditor’s involvement.

### **Bright Line Disclosure Threshold Considerations**

In general, we do not believe the use of bright-line disclosure thresholds are necessary because bright-line thresholds do not properly consider materiality, which is based on both quantitative and qualitative considerations of an individual registrant’s financial statements. We note that the FASB has proposed to eliminate the “at a minimum provide” disclosures in U.S. GAAP in its Proposed Accounting Standards Update 2015-310, *Notes to Financial Statements (Topic 235) – Assessing Whether Disclosures Are Material*. We believe the proposed amendments by the SEC to eliminate bright-line disclosure requirements is consistent with the objective of the FASB.

### **Smaller Reporting Company (“SRC”) Considerations**

We support a view that disclosures within the financial statements should be applied on a consistent basis to every registrant so as to avoid unnecessary confusion and complexity for investors and preparers of financial statements. We believe U.S. GAAP requires that the notes to the financial statements provide disclosure of information that would be material to a user’s understanding of the historical financial information that is included in the financial statements.

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<sup>4</sup> FASB Disclosure Framework: *Interim Reporting*

[http://www.fasb.org/cs/ContentServer?c=Document\\_C&pagename=FASB%2FDocument\\_C%2FDocumentPage&cid=1176164094480](http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176164094480)



**Detailed Requirements**

We have provided our views on specific requests within the Proposed Rule listed in the order of topics in the Proposed Rule in the Appendix.

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

Very truly yours,

*KPMG LLP*

cc:

SEC

- Mary Jo White, Chair
- Michael S. Piwowar, Commissioner
- Kara M. Stein, Commissioner
- Keith Higgins, Director, Division of Corporation Finance
- Mark Kronforst, Chief Accountant, Division of Corporation Finance
- James V. Schnurr, Chief Accountant
- Wesley R. Bricker, Interim Chief Accountant



## APPENDIX

### **Redundant or Duplicative Requirements Section II.B. - Pages 22 through 30**

We support the proposed amendments to delete the redundant or duplicative disclosure requirements.

### **Overlapping Requirements – Proposed Deletions Section III.C. - Pages 30 through 79**

We support the proposed amendments to delete the overlapping disclosure requirements, except for the following matters:

Topic	KPMG Observations
<b>3. Repurchase and Reverse Repurchase Agreements</b>	<p>We support deleting certain of the disclosure requirements in S-X Rule 4-08(m).</p> <p>As noted in the Proposed Rule, the disclosure requirements provide reasonably similar information, with the exception of the requirement to disclose the repurchase liability and the interest rate(s) thereon, which the SEC plans to retain. We believe the SEC should refer this disclosure requirement that the SEC plans to retain to the FASB for potential incorporation into U.S. GAAP.</p>
<b>4. Derivative Accounting Policy</b>	<p>We support deleting the disclosure requirements in S-X Rule 4-08(n).</p> <p>However, in response to Question No. 24 in the Proposed Rule, we believe that S-X Rule 4-08(n) is used by analogy by preparers to account for written options that do not meet the definition of a derivative financial instrument in accordance with ASC 815 at fair value.</p> <p>The deletion of S-X Rule 4-08(n) could potentially impact the current industry practice to account for written options at fair value that do not otherwise meet the definition of a derivative financial instrument under ASC 815. As there does not appear to be clear guidance in U.S. GAAP that would require written options to be accounted for at fair value, preparers have typically viewed the disclosure requirements in S-X Rule 4-08(n) to require that written options be presented in the financial statements at fair</p>



	value. We believe the SEC should refer the matter to the FASB for potential incorporation into U.S. GAAP.
<b>13. Seasonality</b>	<p>We support deleting the disclosure requirements in S-K Item 101(c)(1)(v) and Instruction 5 to S-K Item 303(b).</p> <p>However, we believe the SEC should consider feedback from preparers and users about the potential for registrants to reduce any voluntary information about seasonality that may currently be provided that is subject to the safe harbor provisions of the Private Securities Litigation Reform Act.</p>
<b>14. Research and Development Activities – Domestic, Foreign and Regulation A</b>	<p>We support deleting the disclosure requirements.</p> <p>However, we believe the SEC should consider feedback from preparers and users, including that provided in response to the SEC’s request for comments on <i>Business And Financial Disclosure Required by Regulation S-K</i><sup>5</sup> about the potential for registrants to reduce any voluntary information about their research and development activities. We have noted instances where registrants are voluntarily providing qualitative disclosures about research and development activities that may be material to a user’s understanding of the registrant’s financial statements.</p>

**Overlapping Requirements – Proposed Integrations**  
**Section III.D. – Pages 80 through 86**

We support the proposed amendments to integrate the disclosure requirements.

**Overlapping Requirements – Potential Modifications, Eliminations, or Handoffs to FASB**  
**Section III.E. – Pages 86 through 107**

We have the following comments about the proposed modifications or eliminations of the disclosure requirements or the referral to the FASB for potential incorporation in U.S. GAAP:

<b>Topic</b>	<b>KPMG Observations</b>
<b>1. REIT Disclosures – Tax Status of Distributions</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.

<sup>5</sup> SEC Concept Release, *Business and Financial Disclosure Required by Regulation S-K*, File No. S7-06-16, dated April 13, 2016



<b>2. Consolidation</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.
<b>3. Discount on Shares</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.
<b>4. Assets Subject to Lien</b>	<p>We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.</p> <p>However, we do not believe the disclosure requirements in ASC 860-30-50-1A and 860-30-50-7 include all assets such as buildings, machinery and equipment for which liens could be placed as required by S-X Rule 4-08(b).</p>
<b>5.a. Obligations – Defaults Not Cured</b> <b>5.b. Waived Defaults</b>	<p>We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.</p> <p>The FASB currently has a presentation and disclosure project related to Simplifying the Balance Sheet Classification of Debt on its technical agenda. While the project is intended to reduce the complexity in determining the current versus noncurrent balance sheet classification of debt in instances where a default has occurred, the project does not specifically address the disclosures that are currently required under S-X Rule 4-08(n).</p>
<b>5.c. Changes in Obligations</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.
<b>5.d Amounts and Terms of Financing Arrangements</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.
<b>6. Preferred Shares</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.
<b>7. Income Tax Disclosures</b>	<p>If the Proposed Income Tax ASU is issued as a Final ASU, the disclosure requirements identified as overlapping will be addressed and therefore could be eliminated.</p> <p>If the Proposed Income Tax ASU is not adopted as proposed, we recommend that the SEC consider the comments received by the FASB as part of its due process in determining whether amendments to the disclosure requirements should be made.</p>
<b>8. Related Parties</b>	We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.





<b>9. Repurchase and Reverse Repurchase Agreements</b>	<p>We support deleting certain of the disclosure requirements in S-X Rule 4-08(m).</p> <p>As noted in the Proposed Rule, the disclosure requirements provide reasonably similar information, with the exception of the requirement to disclose the repurchase liability and the interest rate(s) thereon, which the SEC plans to retain. We believe the SEC should refer this disclosure requirement that the SEC plans to retain to the FASB for potential incorporation into U.S. GAAP.</p>
<b>10. Interim Financial Statements – Computation of Earnings Per Share</b>	<p>We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.</p>
<b>11. Interim Financial Statements – Retroactive Prior Period Adjustments</b>	<p>We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.</p>
<b>12. Interim Financial Statements - Common Control Transactions</b>	<p>We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.</p>
<b>13. Products and Services</b>	<p>We support deleting the existing disclosure requirements as the existing U.S. GAAP requirements are substantially similar.</p>
<b>14. Major Customers</b>	<p>We support deleting the existing disclosure requirements as the existing U.S. GAAP requirements are substantially similar.</p>
<b>15. Legal Proceedings</b>	<p>We do not support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP rather, we believe, the SEC should better articulate the objective of disclosures for legal proceedings in accordance with S-K Item 103 and the underlying disclosure requirements should be consistent with that disclosure objective.</p> <p>While there are similarities in the requirements in S-K Item 103 and ASC 450, we believe there are significant differences in the concepts and objectives of the disclosure requirements in S-K Item 103 and ASC 450.</p> <p>The disclosures required by ASC 450 are designed to provide information that is consistent with an accounting model for recognition and measurement of a loss contingency while the disclosures required by S-K Item 103 are intended to provide a description of material pending legal proceedings including disclosure of information such as the name of court or agency</p>



	<p>in which the proceedings are pending and the date the proceedings were instituted. We do not believe the objectives of the disclosure requirements of S-K Item 103 are similar to the disclosure requirements of ASC 450.</p> <p>Also, the additional disclosure requirements could potentially present significant burdens for auditors.</p> <p>We believe the American Bar Association (ABA) Statement Policy Regarding Lawyers' Responses to Auditors' Requests for Information and PCAOB auditing standards incorporate the guidance currently provided in ASC 450. Any additional disclosure requirements as a result of the integration of the requirements in Item 103 into ASC 450, we believe, would require amendments to ASC 450, the American Bar Association (ABA) Statement Policy Regarding Lawyers' Responses to Auditors' Requests for Information, and PCAOB auditing standards.</p>
<b>16. Oil and Gas Producing Activities</b>	<p>We support referring the disclosure requirements to the FASB for potential incorporation into U.S. GAAP.</p> <p>We believe that the requirements of S-K Item 302(b), which require the disclosures under ASC 932-235-50 at interim financial reporting periods enhance the users understanding of the interim financial information of an oil and gas exploration and producing entity and their related activities and provide timely disclosure about activities relevant to the entity.</p>

**Outdated Requirements**  
**Section IV – Pages 109 through 119**

We support the proposed amendments to delete the outdated disclosure requirements.



**Superseded Requirements**  
**Section V.B. – Pages 120 through 141**

We support the proposed amendments to delete, amend or modify the superseded disclosure requirements, except for the following matters:

<b>Topic</b>	<b>KPMG Observations</b>
<b>1. Auditing Standards</b>	<p>We generally support the proposed amendments.</p> <p>However, the amendment to S-X Rule 10-01(d) appears specific to Form 10-Q, and not Article 10 in general. It is unclear to us when a registrant could file a Form 10-Q with financial statements that are not reviewed under PCAOB standards. We recommend that the change to S-X Rule 10-01(d) specifically refer to standards of the PCAOB rather than “applicable professional standards” or explain the circumstances when PCAOB standards do not apply.</p> <p>We also note that it can be confusing for registrants to understand when PCAOB standards are required and when AICPA standards are permitted for audit or review of financial statements filed with the SEC. We believe that it would be beneficial for the SEC to amend its rules and regulations to provide requirements in one place about what professional standards apply in each circumstance where financial statements are filed with the SEC.</p>