

December 7, 2016  
Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re: *Proposed Rule on Disclosure Update and Simplification (Release No. 33-10110; File No. S7-15-16)***

Dear Mr. Fields:

CFA Institute<sup>1</sup>, in consultation with its Corporate Disclosure Policy Council (“CDPC”)<sup>2</sup> is pleased to provide you with our perspectives on the above-referenced Proposed Rule on Disclosure Update and Simplification Technical Release (the “DUSTR Proposal” or “Proposal”). We have limited our remarks to major themes, given the tremendous scope and complexity of the Proposal.

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<sup>1</sup> CFA Institute is a global, not-for-profit professional association of more than 137,000 investment analysts, advisers, portfolio managers, and other investment professionals in 157 countries, of which more than 131,400 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 147 member societies in 73 countries and territories.

<sup>2</sup> The objective of the CDPC is to foster the integrity of financial markets through its efforts to address issues affecting the quality of financial reporting and disclosure worldwide. The CDPC is comprised of investment professionals with extensive expertise and experience in the global capital markets, some of whom are also CFA Institute member volunteers. In this capacity, the CDPC provides the practitioners’ perspective in the promotion of high-quality financial reporting and disclosures that meet the needs of investors.

### *Executive Summary*

We agree that the SEC should streamline existing disclosure requirements as a necessary component of disclosure reform and that such an exercise can potentially enhance the overall readability of company financial reports and related filings (10-K and 10-Q). We strongly support the proposed review and elimination of redundant, outdated, overlapping and superseded SEC disclosure requirements.

At the same time, we urge the Commission to take the time to get investor input on specific suggestions prior to adopting any changes to the current disclosure requirements. In part, our concern with regard to this consultation is that in reducing or eliminating certain disclosure requirements for the sake of efficiency, the Commission also reduces or eliminates important information without investors have an opportunity to fully evaluate the effect of what is removed. The highly technical nature of this consultation, together with the breadth of regulations covered made it impossible for investors, including CFA Institute, to provide a comprehensive review of the consultation's proposals in the short time period allotted.

To remedy this concern, however, CFA Institute plans to conduct a section-by-section review of the disclosures currently required by the Commission, together with a comparison of disclosures mandated under existing accounting rules, to determine whether and which Commission-mandated disclosure mandates can be eliminated. We believe this will provide the kind of comprehensive review the Commission appeared to request in this instance. Moreover, if it would serve the Commission's purposes, we are willing to work jointly with the Commission in this section-by-section review to provide more immediate feedback.

It is important in our view that this streamlining process include strong coordination between the SEC and FASB, looking at how the combination of SEC and FASB requirements affect reporting outcomes. The objective would be to avoid any unintended loss of existing information that investors find important. In this regard, we recommend that the streamlining progression include a fuller process for gathering investor views that are unlikely to surface via this highly technical release. For example, an important consideration in such outreach would examine how the combination of SEC and FASB rules is currently affecting reporting outcomes and how those outcomes might be impacted by any "streamlining" changes.

In our response under specific comments below, we highlight the following overarching themes:

- *Support for Streamlining Disclosures:* We support the proposed streamlining of disclosure requirements
- *Safeguarding Key Information:* There is need to safeguard important information arising from current SEC requirements (i.e. interim reporting and "bright line" requirements).
- *Additional Investor Input:* Investor needs must be at the heart of any disclosure reform. Consequently, there is need for an effective and comprehensive solicitation of investor input on any aspect of disclosure reform. This should ideally be conducted jointly by the

SEC and FASB, and should be based on communicating and illustrating effects of existing rules and proposed amendments in rules on reporting outcomes.

- *Location Preference (Within Financial Statements):* We support the inclusion of disclosures within financial statements except when there would be a loss of information due to lack of “safe harbor” protection. If a redundancy occurs between SEC rules and FASB standards, the SEC rule rather than FASB standard should be eliminated so that the information is audited.
- *We Oppose Variable Reporting Rules for Public Companies.* Scaled-Down disclosures for small reporting companies eliminates key information that enables the capital markets to work efficiently.

We also highlight following important considerations for disclosure reform:

- *Disclosure Effectiveness Ultimately Includes Both Reduction and Updating:* The disclosure reform objectives should go beyond reduction and simplification of requirements. There is also a need to update disclosure requirements to include relevant missing information. Businesses and business reporting topics have evolved massively over the last two decades. The initiative should consider bolstering disclosure requirements where information gaps are clearly apparent, in tandem with the streamlining exercise. This is an area where more robust investor input can help here.
- *Central Role of Technology:* Technology should be at the heart of the disclosure reform initiative.

### *Specific Comments on Technical Release*

#### **Support for Streamlining Disclosures**

We acknowledge that streamlining disclosures is a necessary step of the overall disclosure reform objective.

- *Eliminating redundant or outdated information is desirable and should be done by the SEC on a more regular basis:* In general, we support the proposal to eliminate information within SEC requirements that is redundant, duplicative, outdated, or superseded, as eliminating such information would reduce the burden on filers and may result in more transparent reporting for investors.
- *Implement contemporaneous SEC and New FASB Standard Updates:* The SEC should also consider implementing a mechanism for examining how new accounting standards affect existing SEC rules, in a manner that ensures SEC rules are being updated contemporaneously with any new accounting requirements. In other words, there is a need for coordination between the SEC and FASB on updating any interdependent rules and such updates should be ideally based on a jointly conducted stakeholder outreach.

More broadly, we are of the view that when a new FASB rule replaces an old rule, the Commission *should* consider how its related disclosure requirements should change.

### **Safeguard Information Content Arising from Current Requirements**

We are concerned that initiatives on the part of the SEC to eliminate minimum (“bright-line”) disclosure requirements and/or certain interim information are premature, given that the FASB has yet to finalize its proposals on both of these subjects; finalizing these initiatives now would result in an unknown outcome.

- *“Bright Lines” Act as an Important Safety Net and Should Not Be Eliminated Prior to the Finalization of the FASB’s Materiality Project:* In particular, we note that SEC disclosures and FASB disclosures may not be the same if the SEC disclosure is a line-item requirement with a dollar amount trigger, and the FASB disclosure is subject to a materiality threshold. In such instances, investors may receive less information if such information is required by U.S. GAAP and the issuer determines that the information is “not material.” In effect, the SEC requirement acts as a “safety net” to ensure a base level of disclosure is made in certain areas.<sup>3</sup> Our concern over a potential loss of important, base-level disclosures to investors is exacerbated given the FASB’s proposed clarifications to the concept of materiality under GAAP as part of its Disclosure Framework project. Until that project is completed, deleting required SEC minimum disclosures would result in an unknown outcome; i.e. an unknown overall loss of information. Thus, we would be against deleting existing “bright line” disclosure requirements for revenue and reverse repurchases.
- *Minimum and interim disclosure requirements provide an important safety net to investors and should not be eliminated pending FASB’s reconsideration of these issues:* The Proposal states (p. 21), “The FASB has reached a tentative decision that disclosures about matters required to be provided in annual financial statements should be updated 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.” However, if the FASB does not ratify this tentative decision, investors could end up losing interim disclosures in certain areas if the SEC defers to the FASB requirements. Given that the FASB’s tentative decision was reached over two years ago (May 29, 2014), there can be no guarantee that the FASB will finalize this tentative decision. Accordingly, we believe the SEC should not proceed with its proposals regarding interim information at this time.

### **Ensure Effective and Comprehensive Solicitation of Investor Views**

The Proposal comprehensively identifies SEC disclosure rules that are overlapping, superseded, redundant and out of date. That being said, the Proposal presents several impediments to

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<sup>3</sup> We have seen that once a preparer categorizes a disclosure as “not material” it retains that view even though that disclosure may be material when circumstances change. For example, bad debt reserves for suppliers to the oil and gas industry were not material until energy prices fell sharply.

obtaining investor input, and this is problematic, because investor input and information needs must be at the heart of any disclosure reform. First, there is a notable absence of an evaluation of how changes in rules may affect changes in reporting outcomes. Second, the language within the Proposal necessitates investors to be well versed in detailed SEC rules and acronyms of SEC and FASB codification requirements. Third, there is insufficient contextualizing information and history behind the genesis of the rules. Fourth, the unit analysis for the proposed rules revision includes a combination of specific line items, accounting topics and industry topics (e.g., REITS), making it difficult to readily discern what proportion of overall disclosures is falling under scope for review.

Given a project of this scope and complexity, we suggest the SEC implement several changes to its process so that investors can more readily comprehend the impact of these proposals and accordingly provide better-informed input on any proposed amendment to disclosure requirements. We propose the following measures.

- *Extend outreach to investors on overlapping requirements:* There is need for an extended and tailored direct outreach to investor groups, including possibly holding roundtables, on the overlapping requirements.
- *The impact of altering “overlapping” requirements must be illustrated via reporting outcomes in order for investors to provide meaningful comments:* Investors’ primary vantage point is one of observing and applying reporting outcomes, rather than on translating or anticipating how preparers interpret and apply underlying SEC rules. We are concerned that there are a great many highly technical details in this Proposal, such that it can be difficult to assess the actual impact the Proposal will have on the information provided to investors. We would be very concerned if this Proposal ends up reducing or eliminating important information provided to investors, if they do not have the opportunity to fully evaluate the impact of what is being eliminated.

Accordingly, we believe that any outreach to investors on the “overlapping requirements” that are to be referred to the FASB should clearly illustrate the reporting outcomes arising from the respective SEC and FASB requirements and demonstrate both how they are overlapping, and how the proposed elimination would resolve that. In other words, more practical examples must be provided in the Proposal, if it is truly meant to solicit meaningful input from investors.

- *Coordinate with FASB on changes in overlapping requirements and investor outreach:* The Proposal suggests deleting a number of SEC disclosure requirements because of similar/comparable FASB requirements. The SEC’s specific and granular requirements have historically complemented the FASB’s more general disclosure requirements, and this combination has usually been beneficial to investors, particularly so in the areas of business and segment information. Therefore, we are concerned that removing such disclosures could result in a loss of information to investors as even duplicative items have supplementary value. We recommend that the SEC and FASB coordinate their

analyses and outreach to investors on any interdependent changes in their respective requirements to ensure useful information is not lost in the process.

- *Prioritize target areas for streamlining:* In reaching out to investors, we recommend that the SEC identify and prioritize those disclosure rules that are pervasive and cross-cutting in nature across several disclosure topics.
- *Tailor communication for investor audiences:* There is need to provide more detail on the specific FASB (ASC) and SEC disclosure requirements under consideration. That is, rather than just referring to an ASC or SEC section, the SEC should also, at a minimum, paraphrase the required disclosures, as most investors are not readily familiar with the technical references to ASC and SEC rules and regulations.
- *Contextualize existing requirements:* We recommend the SEC should outline the history underpinning the SEC rules being revised including situations and/or factors that necessitated the issuance of such rules in the first place. Such contextualization will enable investors to assess and concur whether the fact patterns that necessitated the rules are no longer in place.

If the above steps cannot be accomplished by the SEC at this time, then we recommend that the SEC defer action on these parts of the Proposal until it can conduct a more robust study of the impact of altering these disclosures. The elimination of duplicative, outdated, or superseded requirements within SEC rules, as discussed above, should be sufficient for the SEC to fulfill its mandate of reducing “burdensome” disclosures, without resulting in any loss of information to investors.

#### **Location Considerations (Within versus Outside Financial Statements)**

- *We prefer disclosure within the financial statements, as it is subject to more rigorous controls and review, assuming no loss of information:* In general, we believe that investors are better served when financial information moves from outside to within the financial statements, as it subjects the disclosures to external audit, ICFR processes and certifications, and XBRL tagging, at least until such tagging is applied to the full financial filings that we suggest above.
- *Moving disclosures to within financial statement should take account of loss of safe harbor protection:* Our support for location of disclosures within financial statements is premised on there being no concomitant loss of information arising from preparers’ unwillingness to provide forward-looking information in the financial statements, as it will not be afforded so-called “safe harbor” protection. Accordingly, we believe that the SEC should carefully assess the results of its outreach regarding this point before finalizing any proposals that involve moving disclosures that encourage forward-looking information from outside the financial statements to within them.

#### **Small Reporting Companies Requirements**

*SEC disclosures that are incorporated into the FASB requirements should apply equally to Small Reporting Companies (“SRCs”):* We have not and do not support a scaled disclosure regime, as

it deprives investors of needed information and results in a reduced information set for investors in smaller companies. SRCs compete for capital with all other public companies. If investors are to allocate capital rationally, they need the same data for all companies.

Different reporting requirements within the financial statement disclosures for differently-sized registrants may also signal to investors that the entities lack comparable quality. Moreover, scaled disclosures can deprive investors of certain material information that they should receive. Our members must exercise due diligence in analyzing investments; and scaled disclosure may, in some cases, result in insufficient information being provided to conduct a thorough analysis.

Therefore, if a disclosure requirement of the SEC that is currently not applicable to SRCs is referred to the FASB and ultimately incorporated into the FASB's requirements, we believe that requirement should apply equally to SRCs (subject, of course, to the normal materiality considerations). This would be consistent with the overall principle in U.S. GAAP that the notes to the financial statements should disclose all information that would be material to the reader's understanding of the historical financial information included in the body of the financial statements.

### *Other Key Considerations for Disclosure Reform*

#### **Overarching Objective of Disclosure Reform Ought to Go Beyond Streamlining Disclosures**

*Determine and eliminate gaps in current overall disclosure requirements:* In addition to streamlining existing disclosures, we believe a comprehensive disclosure exercise should also focus on what is missing from the current overall package of disclosures (i.e., the combined SEC and FASB disclosure requirements). We encourage the SEC to review proposals that had been issued by the FASB and garnered investor support but were not finalized due to the information being forward-looking in nature. As we understand, FASB is constrained in proposing disclosures that have forward-looking information as these are considered to fall under SEC purview/jurisdiction. Hence, there are situations where FASB has reached out to investors and ascertained that there is demand for certain information (e.g., the demand for enhanced interest rate and liquidity risk disclosures in the aftermath of the global financial crisis), yet FASB felt it could not enact these disclosures.

Another example of where FASB was constrained in requiring certain forward-looking information was in its recent proposed enhancement of income tax disclosures. The proposed enhancements precluded disclosures of the effects of likely-to-be-enacted tax laws on current year reporting as well as forward-looking information related to uncertain tax positions. In addition, FASB has proposed curtailing forward looking information within existing requirements (e.g., sensitivity analysis on the fair value of financial instruments).

By extension, we anticipate that FASB constraints in requiring forward-looking information could arise in other areas where it is reviewing disclosures, such as regarding intangible assets disclosures, a topic under consideration in the recent FASB Invitation to Comment on its Agenda. We also expect the FASB to be hampered in its disclosure proposals related to the new revenue, leasing, and credit losses standards because both standards require complex and

substantive estimates that incorporate forward-looking data. These new disclosures also require significant changes to IT systems with implications for XBRL data collection, documentation, and dissemination. Hence, we recommend that FASB and SEC take a holistic view and work jointly towards enhancing disclosures of intangible assets related information. This is especially the case as the most important information on intangible assets — (e.g., product development pipeline information), revenue, leasing, and credit losses — are likely to be forward-looking in nature.

### **Greater Application of Technology Should Shape Disclosure Reform**

The enhanced role of technology in the delivery of financial information ought to be at the heart of the disclosure reform initiative. We believe that the expanded application of structured reporting technology will result in a more effective and efficient financial reporting process for preparers, while at the same time helping investors receive more transparent, better-quality information on a timely basis. We are also opposed to the proposal to eliminate tagging for certain items. We explain our views below.

- *The use of XBRL should be expanded to the full financial filings to realize its full benefit to preparers and investors:* Consistent with our overall vision of the broader and deeper use of structured data<sup>4</sup>, we believe that the use of XBRL tagging, rather than being considered for selective reductions, should instead be expanded to the full financial filing, including earnings releases, Forms 8-K, proxy statements, tax reporting, and other regulatory reporting requirements, and should require the use of standardized identifiers to give investors a consistent method to identify legal entities. The information contained in reports such as earnings releases and management’s discussion and analysis (MD&A) is vital to investors and has the capacity to move markets; as long as this information is only available from sources outside XBRL, the value of XBRL information will not be fully realized. In the Appendix, we further elaborate on the benefits of XBRL as the delivery engine for the full financial filing.
- *The SEC should support the work of the XBRL Data Quality Committee (DQC) and advocate for use of structured reporting to other agencies:* We encourage the SEC to support, acknowledge and adopt the work of the industry-led XBRL US DQC, of which we are a member. The work of this committee has been shown to reduce errors in XBRL filings. We also encourage the SEC to champion initiatives to expand the use of structured reporting to other government agencies, as we believe this has the potential to achieve a dramatic reduction in reporting costs for preparers, while increasing the accessibility of information to investors.
- *Eliminating XBRL tagging for certain items provides only limited benefit to preparers:* With respect to the proposed elimination of XBRL tagging for certain items, we believe this will provide little benefit to preparers, while at the same time will result in a loss of information for investors, and therefore, we do not support such eliminations. The SEC proposal recommends changes that will result in the elimination of XBRL tagging for

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<sup>4</sup> Singh, Mohini, and Peters, Sandra. *Data and Technology: Transforming the Financial Information Landscape*. CFA Institute, June 2016. Web. <<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2016.n7.1>>.

certain items, including issuer status as a REIT; disclosure of unusual or infrequent events or changes which include the nature and effect of material nonrecurring reinsurance transactions; material changes in issuer's financial condition and results of operations, unusual or infrequent events that have material impact, and known trends; and triggering events that accelerate or decelerate direct financial obligations.

Our view is that if information is important enough to be disclosed, then that information should be tagged to make it more accessible and timely to investors. Eliminating the tagging of the data noted above will make it significantly more difficult for investors and other stakeholders to quickly identify and extract the information, and to perform timely and efficient analysis. At the same time, eliminating the requirement to tag a handful of disclosures will result in negligible savings for preparers, given that once the fixed cost of establishing the XBRL process for reporting is in place, additional disclosures add little to the cost. Therefore, we believe it would be prudent to err on the side of investor protection and forego the elimination of XBRL tagging for these items.

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Thank you again for the opportunity to comment on the Proposal. If you or your staff have questions or seek further elaboration of our views, please contact Mohini Singh, ACA, by phone at +1 [REDACTED], or by e-mail at [REDACTED].

Sincerely,

*/s/ Kurt Schacht*

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Tony Sondhi, Ph.D.  
Chair  
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cc: Russell Golden, FASB, Chairman