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

20 November 2015

Re: Request for Comment on the Effectiveness of Financial Disclosures about Entities Other than the Registrant (Release No. 33-9929; 34-75985; IC-31849) Commission File No. S7-20-15

Dear Mr. Fields:

Ernst & Young LLP is pleased to provide comments to the Securities and Exchange Commission (SEC or the Commission) for consideration in its review of disclosure requirements in Regulation S-X for registrants to provide information about other entities.

We support the SEC's initiative to reconsider the Regulation S-X financial reporting framework and believe there are opportunities to reduce the costs of regulatory compliance while still providing investors with material information. In our view, the recommendations below strike a better balance than the current requirements in satisfying the objectives of protecting investors, promoting capital formation and maintaining competitive US financial markets. We also have submitted a separate letter dated 20 November 2015 to the SEC's disclosure effectiveness spotlight page with additional recommendations on the Regulation S-X requirements for the registrant's financial statements.

Some of our recommendations in our comment letters reflect the perspectives of investors, company executives and other stakeholders we have held discussions with about existing disclosure requirements. For example, several of these people questioned whether users of the financial statements need or read financial information currently required for significant acquirees, equity method investees and subsidiary issuers and guarantors. To provide additional perspective, we have included our publication, *Disclosure effectiveness: What investors, company executives and other stakeholders are saying*, as Appendix B to this letter.

Overall recommendations

The requirements for other entity financial information are complex and prescriptive and, based upon our experiences providing audit and advisory services for SEC registrants, we believe they often yield anomalous results or encourage structures designed to avoid the disclosure requirements that may not benefit investors. We also note that the current rules often require companies to seek relief from the SEC staff, resulting in added costs, uncertainties and delays. We therefore question whether, under the current rules, the benefits to investors of other entity financial statements exceed the costs of compliance (including the consequences of noncompliance) in many cases. Accordingly, we believe the SEC should consider whether the disclosure objectives can be satisfied through other means for the benefit of users.

In this letter, we provide recommendations that we believe will help the SEC develop a more effective and cohesive set of financial reporting requirements that would reduce complexity for both investors and preparers. In some cases, we also recommend requirements that would result in more timely or enhanced disclosures, such as more frequent pro forma financial information or more disaggregated summarized financial information of equity method investees. We have considered feedback from constituents, existing practice in different markets (e.g., exempt offering markets) and our experiences with companies that have had difficulty applying the current requirements and have sought relief from the SEC staff.

We believe the SEC should consider changes that:

- Eliminate inconsistencies in financial reporting requirements that exist between the Securities Act of 1933 (1933 Act) and the Securities Exchange Act of 1934 (1934 Act or Exchange Act)
- Establish significance tests that are easier to perform and that more consistently and reliably measure the relative significance of acquired businesses and equity method investees
- Enhance and leverage pro forma financial information while further streamlining the requirements for separate historical financial statements of acquired businesses
- Improve the presentation and expand the use of summarized financial information for material equity method investees
- Expand the use of summarized financial information for subsidiary issuers and guarantors and the instances when no separate financial information would be required

We describe our recommendations for revising Regulation S-X in more detail below and summarize our recommendations in a table in Appendix A to this letter.

Significance tests (S-X Rule 1-02(w))

The SEC staff has had to issue a lot of interpretive guidance about today's quantitative significance tests, and registrants often have to consider anomalous results under the income test, and in many cases, request further interpretation or relief from the SEC staff.

In our opinion, the current tests do not effectively determine the relative significance of the entity to the registrant. For example, the pretax income test may indicate that an acquired business is significant due to unusual gains or losses in either the registrant's or acquiree's historical results, even though the acquired entity is not material to the operations of the registrant. Moreover, the relative profitability of two companies can be skewed if one has recently recorded its assets and liabilities at an increased basis with significantly higher depreciation and amortization.

The pretax income test also does not consider differences between the acquiree's accounting practices and those of the registrant or the effects of purchase accounting adjustments that can have a significant effect on the acquiree's results and its expected contribution to the merged entity. We have observed that smaller reporting companies and emerging growth companies (EGCs) are disproportionately affected by anomalous results in these tests, particularly if their annual results fluctuate between income and losses or they operate close to "break-even."

We recommend that the significance tests in S-X Rule 1-02(w) be replaced with the following two tests for measuring the significance of acquired businesses and real estate operations, dispositions, equity method investments and unconsolidated subsidiaries of investment companies,[1] with significance determined based on the greater of the following two tests:

- *Revenue test* — We believe a registrant could compare its proportionate share of net revenue of the entity being evaluated (or investment income, as defined by Regulation S-X, for investment companies) to the registrant's consolidated net revenue (or investment income) for the most recently completed year. Similar to the current model, a registrant also could use pro forma revenues where pro forma financial information has been filed for the most recent fiscal year-end under S-X Rule 11-01. We believe this test would be more effective than a significance test based on pretax income. The calculation would be simpler to perform (particularly when a target private company has not previously prepared full US GAAP financial statements necessary to derive pre-tax income) and would not require significant interpretive guidance or exceptions. In addition, a revenue test would be more consistent, reliable and cost-effective because the measure is less likely to change significantly after purchase accounting adjustments, and there would be fewer anomalies resulting in pre-filing requests for SEC staff relief.

- *Fair value investment test* — We also believe a registrant could compare the fair value of its investment in the entity being evaluated to the greater of (1) the registrant's fair value (if readily available) or (2) the carrying amount of the registrant's consolidated total assets.

  If the fair value of the registrant's investment is not readily available (e.g., the fair value of an investment in a private equity method investee or a registrant without publicly available equity securities), the carrying amount of the investment would be used. This test would more accurately measure the significance of the entity being evaluated when fair value is available. Fair value measurements for acquired businesses (based on the purchase price) and registrants or equity method investees with public equity securities should be readily available (based on equity market capitalization). The existing asset and investment significance tests based solely on book values may not measure the economic significance of the transaction or entity as effectively as a test based on fair value.

We also recommend that the Commission codify requirements to determine the significance of acquired businesses in an IPO based on certain principles in Staff Accounting Bulletin No. 80 (SAB 80).[2] In practice, SAB 80 is not frequently applied because it is complex and limits the scope to businesses that remain identifiable after acquisition. In addition, the significance thresholds in SAB 80 have not been updated to reflect the revisions to S-X Rule 3-05 made in 1996. We recommend that significance (based on revenues) of an acquired business should be determined using either the pre-acquisition or most recent annual results of the target and the registrant's most recent pro forma amounts. For example, a calendar-year company evaluating the significance of a 2014 acquisition for an IPO filing in September 2015 would calculate the revenue test using either the target's revenues for the year ended December 31, 2013 (the

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[1] Section 2(a)(3) of the Investment Company Act of 1940 presumes control through ownership by an investment company of more than 25% of the voting securities. Therefore, such an investee would meet the definitions of a subsidiary (S-X Rule 1-02(x)) and an affiliate (S-X Rule 6-02(a)).

[2] We encourage the Commission to address, as appropriate, other SABs that interpret the requirements for other entity financial information (e.g., SAB 1.I, *Financial Statements of Properties Securing Mortgage Loans*, and the related guidance in the SEC Division of Corporation Finance's Financial Reporting Manual).

year prior to acquisition) or the target's pro forma revenues for the year ended December 31, 2014 (the most recent year for which the registrant has filed financial statements) as the numerator and the registrant's pro forma revenues for the year ended December 31, 2014 as the denominator. Similarly, the significance test based on fair value should be computed using the fair value of the consideration transferred to acquire the business compared to the fair value of the issuer indicated by either the estimated IPO price or its fair value determined as of a date following the acquisition. We believe these requirements would more accurately and effectively assess significance in an IPO because they would:

- Be easier to calculate
- Allow companies to apply the requirements for an acquired business that was integrated following the acquisition
- Provide relief to IPO companies that have grown rapidly whether by acquisition or organic growth by not requiring retroactive compliance with SEC reporting rules as if they were registered in prior periods

Financial statements of acquired or to-be-acquired businesses (S-X Rules 3-05 and 3-14)

In 1996, the SEC adopted the final rule, *Streamlining Disclosure Requirements Relating to Significant Business Acquisitions (Release Nos. 33-7355; 34-37802)*, that reduced the regulatory burden of filing financial statements of significant acquisitions in 1933 and 1934 Act filings. The SEC amended S-X Rule 3-05 by increasing the significance thresholds and limiting the requirement for financial statements of probable and recently acquired companies in securities offerings. However, the financial markets and availability of both financial and nonfinancial information have changed significantly since 1996. Accordingly, we believe the disclosure requirements related to these transactions can further be rationalized while still providing investors with the critical and reliable information they need.

Guiding principles

We believe the Commission should consider the following set of principles when determining the requirements for financial information of acquired businesses:

- Pro forma financial information about an acquisition can provide more relevant information to help users understand the implications of the transaction because pro forma financial information reflects the future reporting entity and the effects of purchase accounting adjustments.
- US GAAP financial statements of the acquired business generally provide information with more limited utility because those financial statements do not reflect the effects of purchase accounting adjustments or the effects of other contractual agreements entered into in connection with the acquisition.
- Investors benefit from financial information of acquired businesses and their effect on the registrant, regardless of whether the registrant enters into a single material transaction or a series of acquisitions that in the aggregate are material.
- The same requirements to report financial information for consummated or probable acquisitions should apply to 1933 and 1934 Act filings. However, a separate disclosure regime, presumably with more extensive financial reporting requirements, would continue to be necessary for a Form S-4/merger proxy when a shareholder vote is required to approve a proposed transaction.

- A consistent model for acquisitions by smaller reporting companies or for real estate acquisitions that would apply to all companies and all types of acquisitions can eliminate complexities and confusion and elicit comparable and consistent information.

Comparison with existing requirements

The existing framework limits the nature and extent of pro forma financial information that could provide more meaningful, timely information to investors. The guiding principles we recommend should result in additional opportunities to streamline the number of years and presentation of the financial information required today.

We believe the objectives for reporting financial information about different types of entities in similar situations are the same. We therefore encourage the Commission to establish more consistent or closely aligned models to apply to requirements for all acquired businesses, including operating real estate. Currently, there are different rules in Regulation S-X for smaller reporting companies and acquired real estate operations, and different requirements for 1933 Act and 1934 Act filings for probable acquisitions and individually insignificant acquisitions that are significant in the aggregate. This volume of rules and related application guidance results in unnecessary complexity and confusion.

Recommendations

We believe registrants should provide pro forma financial information when a pending business or operating real estate acquisition is individually significant (as determined using the significance tests described above). The pro forma financial information should be reported when (or within a specified grace period after) the terms of a significant proposed business acquisition are publicly announced and then updated, provided the pending transaction continues to be significant, in subsequent quarterly and annual reports until the end of the fiscal year in which the transaction is consummated or until the merger agreement is terminated.[3] If the registrant is unable to provide pro forma financial information (e.g., because it lacks reliable financial information about the target), the registrant should provide narrative disclosure about the target, the objectives of the transaction and the expected effects on the registrant.

In addition, we recommend that registrants provide pro forma financial information when the aggregate effect of individually insignificant acquisitions completed during the current fiscal year becomes significant. Registrants should update the pro forma financial information for these acquisitions in quarterly and annual reports throughout the current fiscal year and for pending and completed acquisitions that are individually significant. While certain immaterial entities could be excluded from the pro forma financial information, individually insignificant completed acquisitions excluded from the pro forma financial information should not be significant in the aggregate.

- These recommendations would align the requirements for pending acquisitions in 1933 Act and 1934 Act filings and result in more frequent and timely reporting of pro forma financial information. Refer to the section "Pro forma financial information requirements" for additional recommendations to enhance the preparation and presentation of pro forma financial information.

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3 Because ASC 805-10-50-2h requires supplemental pro forma information for acquisitions in the current year that would become duplicative (without providing as much transparency as Article 11 pro forma financial information), we recommend that the SEC ask the FASB to allow for the omission of the US GAAP disclosure requirement when separate Article 11 pro forma financial information is already being provided.

- These recommendations would generally result in pro forma financial information being reported more frequently than currently required. For example, pro forma financial information currently is not required for pending acquisitions except in registration statements when significance exceeds 50%. However, market participants typically factor in the effects of the future acquisitions as well as any related uncertainties and contingencies. In addition, pro forma financial information is not required when individually insignificant acquisitions become collectively significant except in registration statements when aggregate significance exceeds 50%. In that case, registration statements currently are required to include audited financial statements for a mathematical majority of the individually insignificant acquisitions. However, as discussed below, we do not believe that filings under the 1933 Act or the 1934 Act should require audited financial statements for any individually insignificant acquisition. Instead, pro forma financial information should be sufficient for investors when consummated insignificant acquisitions becomes significant in the aggregate.

Upon consummation of a significant acquisition, the registrant should file historical audited financial information of the acquired business within 75 days of consummation to supplement the pro forma financial information. We also make the following recommendations:

- ***Remove the threshold requiring three years of financial statements*** — Currently, when an acquired business exceeds 50% significance, S-X Rule 3-05 requires three years of audited financial statements. We recommend that the Commission consider eliminating any requirement for three years of financial statements under S-X Rule 3-05. As we said in our 20 November 2015 comment letter submitted to the SEC's disclosure effectiveness spotlight page, we believe that only two years of the registrant's financial statements should be necessary in periodic filings, and we do not believe it is necessary to require additional years for acquired businesses. More importantly, we believe two years of audited financial statements should be sufficient for an investor to evaluate the historical financial condition, results of operations and cash flows of the acquiree. In addition, this recommendation would align with the accommodations provided to EGCs in a registration statement for an initial public offering (IPO).

- ***Integrate the requirements for acquired real estate operations*** — When the SEC amended S-X Rule 3-05 in 1996, it said it was planning to consider changes to S-X Rule 3-14 as part of a "more comprehensive disclosure scheme." The lack of consistency between S-X Rules 3-05 and 3-14 has resulted in unnecessary complexity and confusion and the need for significant SEC staff interpretive guidance. We believe the requirements in S-X Rules 3-05 and 3-14 often have similar objectives and the SEC should align them as appropriate. Specifically, the SEC should consider whether to align:

  - The applicability of S-X Rule 3-06 (i.e., periods of nine to 12 months satisfy the requirement to provide one year of financial statements)

  - The use of audited pre-acquisition and post-acquisition periods to satisfy the disclosure requirement

  - The significance thresholds for acquired real estate operations (i.e., 20% vs. 10%)

  - The requirements pertaining to individually insignificant acquisitions

- ***Address the requirements for investments funds*** — Investment companies, particularly business development companies, may be formed through the acquisition of investment funds or a significant portion of the assets of investment funds. In these cases, the investment company may have limited historical information in its IPO registration statement, and S-X Rule 3-05 often is used by analogy to determine whether financial statements, including a schedule of investments, of an acquired investment fund are necessary. We recommend that a model similar to SAB 80 (e.g., significance based on the pro forma registrant) be considered to require audited financial statements for investment funds acquired by investment companies. In addition, we believe that the instructions to the investment company registration statement (e.g., Form N-2) should be modified to require a pro forma schedule of investments that includes all investment fund or asset acquisitions at the time of the filing.

- ***Reduce the burdens of complying with different financial statement requirements*** — When audited financial statements of an acquired private company are otherwise available, significant costs may be necessary to revise the financial statements to comply with the requirements of Regulation S-X (e.g., the form and disclosure requirements in Articles 4 and 5 of Regulation S-X) as well as SEC staff accounting positions expressed in Staff Accounting Bulletins and EITF Observer comments. We question whether the benefits of revising the financial statements to comply with these requirements outweigh the costs.

  - *Private company alternatives* — An acquired entity that has applied private company alternatives (e.g., goodwill or hedge accounting alternatives developed by the Private Company Council) currently meets the definition of a public business entity (PBE) and may need to retrospectively apply the PBE accounting and reporting requirements to all periods presented. We encourage the SEC to consider an accommodation as contemplated in paragraph BC3 of Accounting Standards Update No. 2013-12 to accept private company alternatives in S-X Rule 3-05 financial statements. This would maintain investor protections yet ease the burden of retrospectively revising financial statements that have already been audited, particularly for an entity without any ongoing reporting requirements, such as a significant acquired business, for which conforming adjustments are included in the pro forma financial information. For example, consistent with the requirements for foreign businesses in Item 17 of Form 20-F, an acquired private company following PCC alternatives could be permitted either to discuss material variations between the accounting principles used in preparing its financial statements and those used under US GAAP for PBEs and Regulation S-X requirements or to quantify certain balance sheet and net income differences.

- ***Provide relief from complying with US GAAP and US GAAS in certain cross-border transactions*** — In a cross-border transaction, unless the acquired company meets the definition of a foreign business under S-X Rule 1-02(l), financial statements of the target must either be prepared in accordance with US GAAP or include an extensive reconciliation under Item 18 of Form 20-F. If audited financial statements prepared in accordance with IFRS as issued by the IASB are available, requiring financial statements in accordance with US GAAP results in unnecessary costs and information that may not be useful to investors. If US GAAP financial statements are not readily available, we believe that the SEC should consider expanding the instances in which an entity other than the registrant and that does not qualify as a foreign business could provide financial statements in accordance with IFRS as issued by the IASB. At a minimum, if a foreign private issuer (FPI) files its financial statements in accordance with IFRS as issued by the IASB, we believe that the FPI should be permitted to file financial statements of an acquired business or equity method investee that comply with IFRS as issued by the IASB (or reconcile the acquiree's or investee's home-country GAAP amounts to IFRS as issued by the IASB) even if the acquiree or investee does not qualify as a foreign business. We believe financial reporting by such entities on a basis consistent with the FPI would seem to be more useful for investors. We also recommend that the SEC allow for financial statement audits of acquired foreign companies to be performed in accordance with either AICPA auditing standards or International Standards on Auditing (ISAs). ISAs are high-quality auditing standards that are widely accepted worldwide and largely converged with US GAAS.

- ***Permit additional use of abbreviated financial statements*** **—** Currently, registrants must request SEC staff relief to provide abbreviated financial statements (i.e., statements of revenue and direct expenses and a statement of assets acquired and liabilities assumed), except for acquisitions of oil and gas properties or real estate acquisitions under S-X Rule 3-14. If full audited financial statements are not obtainable without unreasonable cost or effort, we believe any registrant should be permitted to provide abbreviated financial statements for an acquiree if they provide appropriate disclosure about the unreasonable cost and effort that would have been required to prepare and audit full financial statements. We question whether full US GAAP financial statements should be required for an acquisition if they are not readily available, particularly in light of the extensive disclosures required to comply with US GAAP and the treatment of S-X Rule 3-05 entities as PBEs under US GAAP. In addition, consistent with current practice, financial statements for acquired real estate operations should continue to include a statement of revenues and certain direct expenses other than mortgage interest, depreciation and amortization, taxes and overhead.

- ***Eliminate audited financial statement requirements for individually insignificant acquisitions*** **—** Currently, audited financial statements for the majority of individually insignificant acquisitions that exceed 50% significance in the aggregate are required in registration statements. We believe that these audited financial statements have minimal utility, given that they are limited to registration statements and may only represent a select group of acquired businesses that are no more material than those excluded. We believe that pro forma financial information would provide investors with a sufficient understanding of the aggregate effect of such acquisitions without giving greater prominence to certain acquisitions (by providing separate financial statements) than others that are equally insignificant.

- ***Increase threshold to provide audited financial statement requirements for probable acquisitions*** **—** In 1933 Act registration statements, three years of audited financial statements are required for probable acquisitions that exceed 50% significance. Under the 1934 Act, audited financial statements of probable acquisitions are required only in proxy statements related to the proposed transaction, not in periodic reports. We believe that more frequent and timely requirements for pro forma financial information would mitigate the need for audited financial statements prior to consummation of most acquisitions. Therefore, we recommend that the Commission require historical financial statements for probable acquisitions under both the 1933 Act and 1934 Act only in limited situations such as the following:

  - The acquisition is of major significance (e.g., 80% significance under current requirements).

  - The target is expected to be the predecessor of the registrant or the transaction is expected to be accounted for as a reverse acquisition (i.e., the target's financial statements will become the historical financial statements of the registrant).

  - The target's financial statements are required by Form S-4 or a merger proxy.

Registrants would continue to provide audited financial statements for any significant acquisitions after consummation.

In certain cases, we also do not believe that it is appropriate to preclude registrants from issuing registered securities when they cannot provide audited financial statements of acquired businesses. We believe that it is punitive to consider the registrant noncompliant with S-X Rule 3-05 or S-X Rule 3-14 requirements after investors receive information about the operating results that include the acquired business or operating real estate for a reasonable period of time after the acquisition because financial information for that period should be more relevant to investors than the pre-acquisition financial statements. Therefore, we recommend that the Commission allow registrants to cure their noncompliance after all of the following events occur:

- The acquired business or operating real estate is reflected within the post-acquisition audited results for at least nine months.
- The purchase accounting measurement period for the acquisition has closed.
- The acquired business or operating real estate is included in the scope of the registrant's annual assessment of internal control over financial reporting.

The request for comment also seeks feedback about whether the SEC's definition of a business should be consistent with accounting standards. The FASB currently is re-evaluating the definition of a business in ASC 805, which may continue to differ from the SEC's definition of a business in S-X Article 11-01(d). Although harmonizing the definitions would simplify the requirements, we believe that the SEC's definition of a business serves a different purpose from the US GAAP definition because it focuses on whether pre-acquisition historical financial statements would be meaningful to investors. We have observed several situations where historical financial statements of the acquired entity would not provide meaningful information because there is little continuity of operations (e.g., no history of revenue-generating activities). Therefore, at this time, we believe that the SEC should maintain the definition of a business in S-X Article 11-01(d).

Pro forma financial information requirements (S-X Article 11)

Pro forma financial information could be more informative if it were presented on a comparative basis and included certain pro forma adjustments reflecting management's planned actions following consummation of the transaction. S-X Rule 11-02 currently prohibits comparative annual pro forma financial information (except for common control transactions and discontinued operations). In addition, pro forma adjustments are only permitted in the pro forma income statement if they are directly attributable to the transaction, factually supportable and expected to have a continuing effect on the registrant. Accordingly, management cannot include pro forma adjustments that reflect its plans to integrate the acquired business and implement operational changes and that investors could find useful.

We have the following recommendations for the preparation and presentation of pro forma financial information:

- Permit pro forma adjustments to reflect management's plans if such adjustments have a reasonable basis and are made in good faith, as long as they are clearly segregated and include appropriate disclosure

- Permit the presentation of comparative pro forma financial information for two years (and any subsequent interim periods) if the registrant believes the information is useful to investors

- Conform the significance threshold to present pro forma financial information for a material disposition to the threshold (i.e., 20%) for acquisitions

The request for comment also solicits views about the role of auditors in reviewing pro forma financial information. We believe the marketplace should determine the involvement of auditors. For example, underwriters or financial intermediaries involved in a registered or non-registered offering frequently request that auditors issue comfort letters providing negative assurance (or findings) about the form and compliance of the pro forma financial information with S-X Article 11. These comfort letter procedures include reading the pro forma financial information, making inquiries of management and recalculating the pro forma financial information to confirm its accuracy.[4] Accordingly, management may ask the auditor to perform these procedures when the pro forma financial information is prepared and included or expected to be included in an offering document. Auditors also may be engaged to issue an examination or review report on pro forma financial information under attestation standards.[5] These engagements, however, are less common in practice and can require additional time to complete, which could delay the filing of pro forma financial information.

Financial information for equity method investees (S-X Rules 3-09, 4-08(g))

S-X Rules 3-09 and 4-08(g) provide bright-line requirements for public companies (other than smaller reporting companies) to comply with ASC 323-10-50-3c, which states, "If investments in common stock of corporate joint ventures or other investments accounted for under the equity method are, in the aggregate, material in relation to the financial position or results of operations of an investor, it may be necessary for summarized information as to assets, liabilities, and results of operations of the investees to be presented in the notes or in separate statements, either individually or in groups, as appropriate."

These SEC rules require separate audited annual financial statements of individual equity method investees that are significant at a 20% threshold and summarized financial information for annual and interim periods for the aggregate of all equity method investees if significance exceeds 10%.

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4 Paragraphs 42 and 43 of PCAOB AU Section 634, *Letters for Underwriters and Certain Other Requesting Parties,* describe the nature of procedures and circumstances when auditors are permitted to provide negative assurance on pro forma financial information.

5 AT Section 401, *Reporting on Pro Forma Financial Information*

Guiding principles

We believe the Commission should consider the following principles to determine the nature and extent of supplemental financial information an entity should disclose about equity method investees:

- Separate financial statements of equity method investees should not be necessary unless the registrant's financial statements with accompanying footnote disclosure would not provide adequate financial information to make an investment decision.
- Separate financial statements of an equity method investee should be considered only for the periods that the investee is significant (i.e., separate financial statements only need to be reported for the fiscal years when significant).
- The utility of aggregated information about more than one equity method investee diminishes if the reporting entity holds disparate ownership percentage interests in the investees.
- The SEC should eliminate SEC-specific footnote disclosure requirements, including those required by S-X Rule 4-08(g), and work with the FASB to incorporate them in the ASC required disclosure.
- For interim reporting purposes, disclosure of interim financial information about equity method investees should not be required unless there has been a material adverse change since year end.

Comparison with existing requirements

We believe that applying these principles could enhance the disclosure of summarized financial information and simplify compliance in several ways:

- In 2013, approximately 130 registrants[6] filed separate audited financial statements of equity method investees in a Form 10-K or Form 10-K/A. The costs associated with complying with the existing requirements in S-X Rule 3-09 can be significant and may include the entire audit fee, audit-related costs related to issuing an auditor's consent and costs to prepare the financial statements that comply with Regulation S-X (including SEC independence requirements) and US GAAP disclosures for PBEs. Furthermore, contractual restrictions often make it difficult to obtain the separate financial statements for inclusion in an SEC filing. Summarized financial information and enhanced disclosure in lieu of separate financial statements would provide significant cost savings and may provide information that is equally or more useful to investors.
- Approximately 420 registrants[6] (excluding smaller reporting companies) included summarized financial information of equity method investees under S-X Rule 4-08(g) in their 2013 Form 10-K filings. When the registrant had multiple equity method investments, the disclosure often was presented in the aggregate for all investees. Disaggregated information and other disclosure enhancements would be more informative without significant additional preparation costs.

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[6] We analyzed a statistical sample of 339 Form 10-K filings in 2013 from a population of 1,848 filings (other than those of smaller reporting companies) that mentioned the word "equity method." The statistical sample was determined based on a confidence level of 95% and margin of error of +/- 5%. The sample does not include smaller reporting companies that may present summarized financial information of equity method investees in accordance with US GAAP disclosure requirements.

- Requests for SEC staff relief often propose providing expanded summarized financial information in lieu of separate financial statements and allowing full-year information in lieu of the actual holding period in the year of acquisition or disposal of significant equity method investees. Given that these requests are frequently granted by the SEC staff, codifying the acceptability of these alternatives would eliminate the need for registrants to submit pre-filing requests to the SEC staff.

Recommendations

In most cases, we believe that the disclosure of disaggregated summarized financial information would provide sufficient information to investors in lieu of separate financial statements of equity method investees. Separate financial statements of equity investees are not required by US GAAP but may be provided instead of summarized financial information in the notes to the financial statements. Separate financial statements of equity method investees should not be required in our view unless their omission would be material (e.g., a substantial portion of the assets and operations of the registrant are comprised of a single equity method investee). Accordingly, we have the following recommendations:

- ***Increase the significance threshold requiring separate financial statements*** — We believe a higher significance level such as 80% (based on the revised significance tests noted above) more reasonably represents the level at which a registrant's financial statements alone would not provide adequate financial information to make an investment decision. Rule S-X 3-05(b)(4)(iii) currently sets an 80% significance level for determining when an entity is of major significance.

- ***Eliminate the requirement to provide separate financial statements for years in which the investee is not significant*** — Currently, a registrant must provide separate financial statements for all years presented if the investee was significant in any one of the years. While the financial statements can be unaudited for the years when the investee was not significant, this requirement can be costly for companies, particularly for periods prior to the first year the investee is significant. We do not believe it is necessary to require comparative financial statements unless the investee was significant in both years because the separate financial statements are intended to be used in the context of the registrant's financial statements rather than on a standalone basis.

- ***Streamline the requirements for separate financial statements in the year of acquisition and disposal*** — There are cost and operational challenges to obtaining stub-period financial statements for only the portion of the year that the registrant held an equity method investment. After the registrant has disposed of its investment, we do not believe that separate financial statements (or summarized balance sheet financial information) should be required. In addition, in the year of acquisition, we believe that financial statements for the entire year including the pre-acquisition period should be permitted with supplemental disclosure of the date on which the equity method investment was acquired and the amount of equity method income recorded by the registrant related to its ownership period.

We also recommend that the SEC request that the FASB initiate a project focused on enhancing disclosure about equity method investees and incorporating SEC-specific guidance (i.e., S-X Rule 4-08(g)) into the US GAAP disclosure requirements, as appropriate. The SEC and FASB could consider the following disclosure changes:

- Summarized financial information[7] should be presented separately for individually material investees along with disclosure of the respective ownership interest (unless doing so would cause legitimate competitive harm to the reporting entity or the investee, in which case the omission and the reason should be disclosed).

- Absent a revision to the existing US GAAP disclosure requirements, we believe that the Commission should require summarized financial information to be separately disclosed for individual equity method investees that are 10% or more significant (based on the significance tests recommended above).

- If equity method investments that are not individually material are material in the aggregate, disclosures about the investees should be included in the notes to the financial statements and should convey the following:

  - The nature and purpose of the investments

  - The range of ownership interests held in the investees

  - The carrying amount and the fair value (if readily available) of the investments in the aggregate

  - The amount of equity earnings recorded and dividends received in the aggregate

Except when separate financial statements of the investee were included in the most recent Form 10-K because the investee was significant at the 80% level as of the most recent year end, we do not believe summarized financial information of material equity method investees should be required in interim financial statements unless there has been a material adverse change in the investee's financial condition or operations since the most recently reported annual information. This is consistent with US GAAP, which does not require any explicit disclosures about equity method investees in interim financial statements.

We also believe the scope of S-X Rule 3-09 should be limited to equity method investees that are not accounted for at fair value. However, if the SEC believes financial information about unconsolidated subsidiaries of investment companies is necessary, we recommend the following requirements:

- Separate audited financial statements of unconsolidated, majority-owned subsidiaries should only be required when they are of major significance (e.g., 80% or greater based on investment income or fair value). However, given the asset diversification requirements to qualify as a regulated

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[7] We also believe that the SEC and the FASB should consider changes to the requirements for summarized financial information in S-X Rule 1-02(bb) (e.g., to include additional financial statement captions or information about cash flows) to meet the objectives of the various disclosure requirements under which summarized information is provided. Alternatively, the SEC could consider rescinding S-X Rule 1-02(bb) and replacing it with separate presentation requirements based upon the information needs of each rule (i.e., S-X Rules 4-08(g), 3-10, 3-16).

investment company under Subchapter M of the Internal Revenue Code, we expect that the circumstances requiring any such audited financial statements would be very rare. For investments in unconsolidated subsidiaries where our proposed investment income or fair value significance test exceeds 10%, summarized financial information should be required,[8] but the information needs of investors may differ depending on the nature of the unconsolidated subsidiary:

- Investment in an operating portfolio business — Summarized financial information similar to our recommendations above for equity method investees would be appropriate. However, because the financial information would not be reconciled to the results in the registrant's financial statements, registrants should be directed to the disclosure requirements in ASC 275, including the requirement to include information that is adequate to inform users of the nature of the investment risk.

- Investment in an entity accounted for as an investment company pursuant to ASC 946 or an entity in a similar line of business that invests in a portfolio of investments but is not accounted for as an investment company pursuant to ASC 946 (i.e., certain asset-backed financing entities, certain joint ventures or other entities we collectively refer to as investment entities) — Summarized information required for investment entities should be similar to information investors use to evaluate investment company financial statements. For example, summarized balance sheet information could include investments, cash, other assets, debt and other liabilities, and summarized income statement information could include interest income, dividend income, other income, management fees, incentive fees, other expenses, net realized gains and losses, and net change in unrealized gains and losses. Also, summarized financial information should be supplemented with a schedule of investments either summarized or listing each holding in a manner that complies with the requirements of S-X Article 12. Furthermore, the registrant's financial statements would be expected to satisfy the disclosure requirements in ASC 275 and ASC 825 related to investment risks and estimates.

Financial statements of guarantors or issuers of guaranteed securities (S-X Rule 3-10)

In our experience, the costs and challenges of complying with S-X Rule 3-10 continue to increase. We encourage the Commission to consider alternatives to the disclosures required by S-X Rule 3-10. The Rule 144A debt markets provide appropriate evidence of the information that investors need and use to understand guaranteed securities, which is less than what is required under S-X Rule 3-10.[9] We believe that it is likely that the information needs of institutional investors in Rule 144A transactions would be sufficient for other types of investors in guaranteed securities. Therefore, we have based several of our recommendations on practice in the Rule 144A debt markets.

8 If an unconsolidated subsidiary is a public company or investment fund, we believe the registrant could instead include a statement referring investors to a publicly available website with the SEC-filed financial information.

9 Comment letter submitted by the American Bar Association, Business Law Section dated 14 November 2014.

Guiding principles

We believe the Commission should consider the following principles to determine the nature and extent of financial disclosure to require about subsidiary issuers and guarantors:

- We believe that investors are largely indifferent about whether payment comes from the issuer or one or more guarantors or both, as long as payment occurs on the dates specified in the security.

- Condensed consolidating financial information in the notes to public company financial statements adds unneeded complexity, is difficult and costly to provide and is error-prone. The disclosure is inefficient because it segregates the issuer and guarantors. Selected financial information of the issuer and guarantor(s) as a single economic unit (or, alternatively, all non-guarantors in the aggregate) would communicate financial condition, results and cash flows for those that have a contractual obligation to the bondholders.

- Selected financial information should only be required when the issuer or guarantor would have periodic reporting obligations if it were reporting separately under the Exchange Act.

- Recently acquired guarantors rarely have a material adverse effect on the financial capacity of the obligated group, so historical audited financial statements of recently acquired guarantors may not be necessary.

- For interim reporting purposes, selected financial information of the obligated group (or non-guarantors in the aggregate) should not be required unless there has been a material adverse change since year end.

Comparison with existing requirements

In the 2000 adopting release, *Financial Statements and Periodic Reports for Related Issuers and Guarantors*,[10] the Commission estimated that preparing condensed consolidating financial information would cost only $1,000 more than preparing summarized financial information. In practice, companies face challenges and incur significant costs to comply with S-X Rule 3-10. Approximately 500 registrants[11] included disclosure of condensed consolidating financial information in Form 10-K filings during 2013. Some companies have had to restate their financial statements because of errors in the presentation of condensed consolidating financial information. We believe that requirements that permit summarized or selected financial information for the obligated group, which is common in Rule 144A debt offerings, would significantly reduce costs and provide simpler yet still meaningful information to investors.

Currently, if a subsidiary issuer or guarantor applies the relief in S-X Rule 3-10 and discloses condensed consolidating financial information in the parent's financial statements, the parent must continue to include this disclosure for as long as the securities are outstanding even if the subsidiary

[10] Release Nos. 33-7878; 34-43124; FR-55, 24 August 2000.

[11] We searched all Form 10-K filings in 2013 using various keywords, including "subsidiary issuer," "subsidiary guarantor," "non-guarantors" and "condensed consolidating." We identified 494 filings that included the disclosure of condensed consolidating financial information in accordance with the relief provided by S-X Rule 3-10.

issuer or guarantor could suspend its reporting obligation under Section 15(d) had it not availed itself of the exemption for separate reporting in Rule 12(h)-5.[12] We recommend that the Commission correct this anomaly in its reconsideration of S-X Rule 3-10.

The requirements to provide separate pre-acquisition financial statements of recently acquired guarantors under S-X Rule 3-10(g) are unnecessary and potentially burdensome. S-X Rule 3-10(g) applies only to filings under the 1933 Act and can require more extensive disclosure than 1934 Act reports and acquired business financial statements under S-X Rule 3-05. Furthermore, the current significance test for recently acquired guarantors compares the net book value or purchase price of the subsidiary to the principal amount of the securities registered. This comparison does not appropriately measure the guarantor's significance to the obligated group and its importance to the aggregate credit support provided to investors.

Recommendations

Registrants should continue to evaluate whether they qualify for relief from providing separate financial statements of subsidiary issuers or guarantors. However, we encourage the Commission to consider the following recommendations to clarify, simplify and offer more relief in S-X Rule 3-10:

- Expand the instances when no separate financial information for a subsidiary issuer or guarantor would be required, including when the issuer or guarantor is a wholly owned, but not 100% owned, subsidiary[13]

- Codify in S-X Rule 3-10 the customary circumstances for the release of a subsidiary's guarantee that permit a registrant to continue to apply the relief in the rule

- Permit narrative-only disclosure if the parent and all of its consolidated subsidiaries provide guarantees (or if non-guarantor subsidiaries are minor) of securities issued by either the parent or a subsidiary (regardless of whether the parent has independent assets or operations)

In addition, we recommend that the Commission replace the current requirement to present condensed consolidating financial information with the requirement to present summarized financial information of either the issuers and guarantors as a single obligated group or the non-guarantors as a single group. The SEC could allow a registrant to elect to disclose this information for either group in its notes to the annual financial statements if the election is consistently applied.

Consistent with recommendations elsewhere in the letter, we believe a registrant should not be required to disclose this selected financial information in its interim financial statements unless there has been a material adverse change in the financial condition of the obligated group since the most recently reported annual information. In addition, the registrant should continue to disclose the

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[12] Under Section 15(d) of the Exchange Act, a subsidiary issuer or guarantor can suspend its reporting obligation if certain criteria are met (e.g., securities are held by fewer than 300 record holders and the registrant files a Form 15) provided it has not used the relief in Rule 12(h)-5 and S-X Rule 3-10 and has filed separate audited financial statements.

[13] S-X Rule 1-02(aa) defines a wholly owned subsidiary differently from a 100%-owned subsidiary under S-X Rule 3-10. Under S-X Rule 1-02 (aa), a subsidiary is wholly owned if its outstanding voting securities are substantially owned by its parent (or the parent's other wholly owned subsidiaries).

selected financial information until such time that the issuer and related guarantors could deregister if considered separate registrants (e.g., fewer than 300 record holders and a Form 15 is filed to suspend reporting obligations).

We also recommend that the SEC rescind the requirement to provide separate audited financial statements for recently acquired guarantors under S-X Rule 3-10(g) because we believe that recently acquired guarantors rarely have a material adverse effect on the financial capacity of the obligated group. If the SEC deems this information necessary, we believe that summarized financial information, or audited financial statements if deemed necessary, should be required only for the most recent fiscal year when a newly acquired guarantor is significant (based on the revised significance tests described above) to the obligated group and has not been included in the summarized financial information of the obligated group for a historical period included in the registration statement.

Financial statements of affiliates that collateralize an issuance (S-X Rule 3-16)

S-X Rule 3-16 requires separate financial statements of affiliates that collateralize an issuance if their securities constitute a substantial portion of collateral.[14] To assess whether audited annual financial statements of such affiliates are necessary, registrants are required to perform the "substantial portion of collateral" test on the offering date and as of the end of each fiscal year for which a Form 10-K is required.

However, in practice, registrants structure agreements to avoid this disclosure requirement even though pledges of the affiliate's securities provide a credit enhancement to investors. Based on current practice in Rule 144A markets, institutional investors also do not seem to believe that separate financial statements of affiliates that collateralize an issuance are necessary.[15]

In lieu of full financial statements, we recommend that registrants be permitted to provide summarized financial information for affiliates that substantially collateralize the issuance.[16] For example, S-X Rule 4-08(b) could be expanded to include this disclosure requirement.[17] We believe that summarized financial information in the registrant's audited financial statements would give holders of the collateralized securities a sufficient understanding of the collateral provisions and financial condition of the affiliate(s) and may encourage a greater use of collateralizations to provide additional support for investors.

We also recommend that the Commission revise the substantial portion of collateral test for purposes of the Form 10-K annual reassessment. We believe that the denominator in the test should be the amount of collateralized securities originally issued, not the amount outstanding as of the reassessment date. That is, we do not believe an affiliate should meet the substantial portion test just because a portion of the collateralized securities has been repurchased or repaid.

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14 Securities constitute a substantial portion of collateral under S-X Rule 3-16 if the aggregate principal amount, par value, book value or market value of the securities pledged as collateral, whichever is the greatest, equals 20% or more of the principal amount of the collateralized securities.

15 Comment letter submitted by the American Bar Association, Business Law Section dated 14 November 2014.

16 When the ownership percentage of such affiliates is essentially the same, the registrant also should be allowed to aggregate the summarized financial information of such affiliates.

17 FPIs are not required to comply with Rule 4-08(b). Therefore, if the SEC expands this rule to include financial information for affiliates that substantially collateralize the issuance, it should consider similar requirements for FPIs.

Consideration of XBRL tagging in other entity financial statements

The SEC's final rule, *Interactive Data to Improve Financial Reporting*,[18] stated that the intent of XBRL tagging was "not only to make financial information easier for investors to analyze, but also to assist in automating regulatory filings and business information processing…[and] the potential to increase the speed, accuracy and usability of financial disclosure, and eventually reduce costs."

Requiring companies to tag separate financial statements of other entities would result in significant costs, particularly when those entities are private companies that do not have processes or experience with XBRL tagging and the registrant may not have sufficient knowledge of the financial reporting of the other entities to adequately tag their financial statements. We also question the utility of tagging financial statements that are not expected to be filed on a recurring basis. Therefore, S-X Rule 3-05 financial statements should continue to be excluded from the scope of XBRL tagging. We believe further study is necessary to determine whether the benefits of tagging financial statements of equity method investees would outweigh the costs.

*   *   *   *   *

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

Yours sincerely,

Ernst & Young LLP

Copy to: James Schnurr, Chief Accountant, Office of Chief Accountant
Keith Higgins, Director, Division of Corporation Finance
Mark Kronforst, Chief Accountant, Division of Corporation Finance
Russell Golden, Chair, Financial Accounting Standards Board

18 Release Nos. 33-9002; 34-59324; 39-2461; IC-28609, 10 February 2009

Existing requirements	EY recommendations	Basis for recommendations
Significance tests (S-X 1-02(w))		
‣ Significance tests based on the higher of the income, investment and asset tests	‣ Continue to require significance tests, but replace existing tests with simpler tests based on revenue and fair value (book value if fair value is not readily determinable) that would produce more consistent results. ‣ Codify requirements to determine significance of acquired businesses in an IPO that compare the actual or pro forma revenue of the target, as well as its purchase price, to the registrant's most recent pro forma amounts.	‣ Existing significance tests have resulted in an overload of interpretive guidance and the need to evaluate anomalous results, often under the income test (in many cases, requiring requests for SEC staff interpretation or relief). ‣ Revenue (or pro forma revenue) and fair value tests would be more reliable indicators of the tested entity's significance and would be easier to calculate.
Financial statements of acquired or to-be-acquired businesses (S-X 3-05, 3-14)		
‣ One to three years (at most two years for smaller reporting companies) of annual financial statements and the latest interim period for significant acquisitions greater than 20% ‣ Full audited financial statements, except when less than substantially all of an entity is acquired ‣ For individually insignificant acquisitions that exceed 50% significance in the aggregate, financial statements for the mathematical majority of the businesses acquired in registration and certain proxy statements	‣ Rescind any requirement to provide three years of audited financial statements for an acquired business. ‣ Reduce the burden to comply with additional SEC (or PBE) financial statement accounting and disclosure requirements when audited US GAAP (or PCC) financial statements are already available; expand the instances when financial statements of acquired foreign companies may comply with IFRS and their audits can be performed under either AICPA auditing standards or ISAs. ‣ Allow greater flexibility to provide abbreviated financial statements if full financial statements are not obtainable without unreasonable cost and effort (and that fact is disclosed). ‣ Require in both 1933 and 1934 Act filings pro forma information for pending acquisitions that are individually significant or significant in the aggregate. ‣ Require audited financial statements of a probable acquisition in limited situations such as if the target will be the predecessor or accounting acquirer in a reverse acquisition or the acquisition is of major significance. ‣ Permit companies to cure noncompliance with S-X 3-05 much earlier subject to certain conditions. ‣ Revise the separate requirements for acquired real estate properties under S-X 3-14 to more closely align with S-X 3-05.	‣ Two years of financial statements should be sufficient for an investor to evaluate the implications of an acquisition. ‣ Historical US GAAP financial statements of acquired businesses have limited utility to investors who want to assess the future contribution of the acquired business. ‣ Pro forma financial information usually provides more relevant information to investors about the implications of one or more acquisitions. Audited historical financial statements should not be required for any individually insignificant acquisitions. ‣ A framework permitting abbreviated financial statements has worked effectively for real estate acquisitions and in the oil and gas industry, and the SEC staff has accepted them in other cases. ‣ A consistent model for acquisitions by smaller reporting companies or for real estate acquisitions that would apply to all companies and all types of acquisitions can eliminate complexities and confusion and elicit comparable and consistent information
Pro forma financial information requirements for acquisitions and dispositions		
‣ Required in Form 8-K or a registration statement if a significant business combination or disposition has occurred in the latest fiscal year or subsequent interim period ‣ Required in a new registration statement if a 50% significant acquisition is probable or if individually insignificant acquisitions are significant in the aggregate at over 50%	‣ Report pro forma financial information more frequently than currently required and even in circumstances when historical financial statements of the acquiree are not required (e.g., probable acquisitions, individually insignificant acquisitions). ‣ Update the pro forma financial information for pending acquisitions that are individually significant and completed acquisitions that are significant in the aggregate in quarterly and annual reports during the current fiscal year. ‣ Provide narrative disclosure about the transaction if the registrant is unable to provide pro forma financial information (e.g., it lacks reliable financial information about the target).	‣ Pro forma financial information about an acquisition provides the most relevant information to understand the implications of the transaction. ‣ Registrants should have greater flexibility to present pro forma financial information that they believe will be useful to investors.

<table>
<tr><th>Existing requirements</th><th>EY recommendations</th><th>Basis for recommendations</th></tr>
<tr><td></td><td>Permit pro forma financial information on a comparative basis for two fiscal years.
Permit pro forma adjustments other than those directly attributable to the transaction and its related accounting and financing (e.g., adjustments to reflect management's plans to integrate and operate the acquired business with appropriate segregation and disclosure).
Conform the significance threshold for presenting pro forma financial information to depict material dispositions and acquired businesses.</td><td></td></tr>
<tr><td colspan="3">Financial information of equity method investees (S-X 3-09, 4-08(g))</td></tr>
<tr><td>Separate financial statements required if greater than 20% significance
Financial information to only reflect the portion of the fiscal year that the equity method investment was held (e.g., in year of acquisition or disposition)
Summarized financial information required for the aggregate of all equity method investees if significance exceeds 10%</td><td>Eliminate requirement to provide separate audited financial statements, unless they are significant at such a level that they are material and necessary to an investor's understanding of the registrant.
Allow separate full-year financial statements of the investee in the year of acquisition of the equity method investment but do not require investee financial statements after the investment has been disposed.
Ask the FASB to revise and enhance US GAAP disclosure requirements for equity method investees in ASC 323 and remove the existing SEC-specific guidance in S-X 4-08(g). Consider disclosure changes that:
Require disaggregated summarized financial information, along with disclosure of the effects of basis differences on the amounts recorded, for material equity method investees, except in the year of disposal. Absent amended US GAAP disclosure requirements, amend S-X 4-08(g) to require disaggregated summarized financial information for individual investees greater than 10% significant.
Provide disclosure (other than aggregated summarized financial information) of individually immaterial investees that are material in the aggregate, including the nature and purpose of the investments, range of ownership interests, carrying amount and fair value of the investments in the aggregate, and the amount of equity earnings recorded and dividends received in the aggregate.
Omit summarized financial information of material equity method investees in interim financial statements unless there has been a material adverse change since year end (or unless separate annual financial statements of the investee were required for the most recent year).
Limit the scope of S-X Rule 3-09 to equity method investees that are not carried at fair value; however, if the SEC believes financial information about significant unconsolidated subsidiaries of investment companies is necessary, require summarized financial information (along with a summarized schedule of investments in some cases).</td><td>Separate financial statements of individual equity method investees generally are not necessary if disaggregated, summarized financial information is provided.
Requiring separate financial statements of investees at a higher level more reasonably represents the level at which a registrant's financial statements alone would not provide adequate financial information to make an investment decision.
Changes to the requirements in the year of acquisition and disposition will facilitate compliance and eliminate the need for registrants to submit pre-filing requests to the SEC staff.
S-X 4-08(g) disclosure requires aggregated summarized information for multiple equity method investees that provides limited utility if the registrant holds a wide range of ownership percentage interests in the investees.</td></tr>
</table>

Existing requirements	EY recommendations	Basis for recommendations
Financial statements of guarantors or issuers of guaranteed securities (S-X 3-10)		
▸ Separate financial statements of guarantors or issuers of guaranteed securities, unless relief is available under S-X 3-10 (e.g., condensed consolidating financial information permitted in the notes to the registrant's financial statements if the guarantors and issuers are 100% owned, and guarantees are full and unconditional and joint and several) ▸ If significant (based on net book value or purchase price as a percentage of registered securities), separate pre-acquisition financial statements of recently acquired guarantors in registration statements	▸ No longer require the ongoing reporting requirements of S-X 3-10 by an issuer or guarantor that could deregister if considered a separate registrant (e.g., less than 300 record holders). ▸ Expand the instances when no separate financial information for a subsidiary issuer or guarantor would be required, including when the issuer or guarantor is a wholly owned, but not 100% owned, subsidiary. ▸ Permit the sole presentation of narrative disclosure when the parent has independent assets and operations, provided that any non-guarantors are minor (e.g., less than 3%). ▸ Require summarized financial information for either the issuers and guarantors as a single obligated group (or the non-guarantors as a single group) rather than condensed consolidating financial information. ▸ Codify staff guidance on customary release provisions of subsidiary guarantees. ▸ Financial information under S-X 3-10 should not be required in interim financial statements, unless there has been a material adverse change since year end. ▸ Rescind the requirement to provide separate audited financial statements for recently acquired guarantors under S-X 3-10(g). If the SEC deems this information necessary, require summarized financial information, or audited financial statements, for the most recent fiscal year only if the newly acquired guarantors are significant (based on the revised significance tests described above) to the obligated group in the aggregate and have not been included in the summarized financial information of the obligated group in the registration statement.	▸ Condensed consolidating financial information within the notes to public company financial statements adds unneeded complexity, is difficult and costly to provide, and is error-prone. ▸ The costs to prepare condensed consolidating financial information are significantly greater than initially estimated (e.g., additional $1,000 originally estimated by the SEC). ▸ Investors are largely indifferent about whether the payment ultimately comes from the issuer or one or more guarantors or both, as long as payment occurs on the dates specified in the security. ▸ Selected financial information of the obligated group (or the non-guarantors as a single group) often is provided instead of condensed consolidating financial information to satisfy the needs of institutional investors in Rule 144A debt offerings. ▸ Separate pre-acquisition financial statements of recently acquired guarantors often are not necessary for investors to understand the financial capacity of the obligated group. They result in additional disclosures specific to 1933 Act filings and overlap with the S-X 3-05 requirements.
Financial statements of affiliates that collateralize an issuance (S-X 3-16)		
▸ Separate financial statements of affiliates that collateralize an issuance if their securities constitute a substantial portion of collateral	▸ Allow registrants to provide summarized financial information (consistent with S-X Rule 1-02(bb)) of affiliates that substantially collateralize the issuance, in lieu of audited financial statements. ▸ Require summarized financial information in a registration statement for an offering of collateralized securities if the fair value of the securities pledged as collateral is significant relative to the amount of securities offered. ▸ Require summarized financial information in subsequent annual reports only if the fair value of the securities pledged as collateral is significant to the original amount of securities offered. ▸ Allow aggregation of summarized financial information when the registrant's ownership percentages are essentially the same.	▸ Registrants structure agreements specifically to avoid the application of S-X 3-16, in some cases contractually eliminating the pledge of affiliate stock to the detriment of investors. ▸ Based on market practice in Rule 144A offerings, institutional investors do not seem to believe separate audited financial statements are necessary for them to understand the financial condition of the entities providing security when making an investment decision. ▸ Information about the collateral rarely would be material in subsequent Exchange Act reports when the original prospectus did not include any information about the collateral.

Appendix B

Disclosure effectiveness

What investors, company executives and other stakeholders are saying

November 2014

EY

Building a better working world

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Executive summary

The Securities and Exchange Commission (SEC) staff currently is reviewing the SEC's disclosure requirements and reaching out to companies, investors and other market participants for ideas about how to improve disclosures and make them more meaningful. The SEC is expected to issue one or more concept releases to seek public input.[1]

This initiative presents an important opportunity for the financial reporting community to consider how disclosures can be improved, including where they can be streamlined, for the benefit of investors.

This publication summarizes the views expressed by the participants in working dinners EY hosted to discuss how to make corporate disclosures more effective. Participants, many of whom are listed in the appendix with their affiliations, included:

- Financial analysts and investors
- Company executives, including those responsible for preparing financial statements and SEC filings
- Board members, including audit committee members
- Legal advisers and academics

The discussions focused on the following topics:

- The objectives of SEC reporting and the application of the rules that has resulted in SEC filings "cluttered" with boilerplate and repetition
- The priorities for disclosure effectiveness initiatives, including simplifying the disclosure regime based on cohesive objectives, considering guidance on materiality and modernizing the delivery of information
- Additional or enhanced disclosures to more closely align corporate reporting with investor needs
- The voluntary improvements that companies can make now
- The barriers to more effective disclosures, including litigation and compliance risks, competing disclosure objectives in accounting and SEC reporting standards, and the different needs of different investors

The moderator for each dinner was Leslie F. Seidman, the Executive Director of the Center for Excellence in Financial Reporting at Pace University and the former Chairman of the Financial Accounting Standards Board (FASB). During her tenure, the FASB launched its Disclosure Framework project and issued an Invitation to Comment[2] on ways to improve the effectiveness of disclosures in notes to financial statements and the process the FASB uses to set or revise disclosure requirements.

The dinners were held in July and September in New York and September 2014 in Palo Alto, California. They were conducted under a modified Chatham House rule, allowing for reference to the discussion without attribution to individual speakers.

[1] The SEC is posting news about the project and soliciting comments through a spotlight page on the SEC's website. The FASB and the International Accounting Standards Board (IASB) also are seeking ways to improve disclosures in the financial statement notes.

[2] *Invitation to Comment – Disclosure Framework*, 21 July 2012

Purpose of financial reporting

The primary objective of financial reporting is to provide users of the financial statements with relevant information to make informed investment and credit decisions.[3] Users continue to seek additional insight about a company's performance, strategic direction and exposure to risk. Companies are increasingly communicating with users through a variety of channels, including company websites, earnings calls, and investor and analyst presentations, in addition to their required annual and quarterly SEC reports.

Participants considered whether the existing disclosure framework meets the objectives of financial reporting to communicate material information to users in a timely and effective manner.

Users of SEC reports

Our participants said companies find it challenging to identify a target audience for their disclosures because different investors want different information. "Disclosure will be driven by market forces. What drives one investor is not necessarily going to be important to the next investor," one of our participants said. "So the challenge is appealing to a wide range of investors, not just complying with legal and accounting rules." Some of our participants said trying to satisfy the needs of all users results in disclosure overload.

One participant said he believes SEC filings are sometimes written to satisfy SEC staff members rather than to benefit investors and other users.

However, many participants said that required disclosures in SEC filings, including the audited financial statements, continue to serve a vital role in informing the financial markets. They indicated that although many users make investment decisions using information from the earnings release, users rely on SEC reports to validate previous communications, elaborate about management's priorities and risk assessments, and provide more data that they can analyze.

Several investors and analyst participants also said the disclosures required in SEC filings are necessary because they establish a consistent baseline of information. Companies have a lot more discretion to choose what to disclose in earnings releases, they noted.

> "The only way for investors to get information that companies may not want to disclose [voluntarily], and in a consistent way, is to require it."
>
> — Investor

Transparency and volume of disclosures

The volume of disclosures has grown significantly over the last 20 years.[4] Many participants said that disclosure documents contain too much boilerplate and are so repetitive that it is difficult to find the most important information.

Although participants generally agreed that redundancy is a problem, investors said they are less concerned about reducing the volume of disclosures than they are in obtaining more meaningful information. One participant commented, "Five hundred pages may be too much, yet we need a lot more [of the right disclosure] than we are getting now."

Another participant echoed that view. "When we ask investors [about disclosure effectiveness], the issue was communication, not volume of disclosure, and basic principles of how to communicate … [such as] more emphasis on how to highlight what is most important, for example, using charts and tables."

Some companies have effectively applied plain English principles and used various presentation techniques to improve their communications. However, several participants observed that the existing disclosure system often results in a "check-the-box" mentality.

> "The volume [of disclosures] is increasing much faster than the rate of [meaningful] information provided. … We are not accomplishing transparency. In fact, we are creating obfuscation."
>
> — Audit Committee member

[3] FASB Concepts Statement No. 8, *Conceptual Framework for Financial Reporting, Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information*

[4] In an EY study, we found that the average number of pages devoted to footnotes and management's discussion and analysis in the annual reports of 20 well-known companies quadrupled from 1992 to 2011.

Priorities for disclosure effectiveness initiatives

Participants discussed areas where investors believe they need more information and where disclosures could be streamlined or eliminated without sacrificing material information for investors.

Structure versus flexibility

Many participants expressed concern that existing disclosure requirements do not entirely align with user needs. Participants provided examples where information considered most important to the company is not part of the required disclosure package. One executive said that investors are most interested in information about what their company has in its inventory and how profitable sales of those products might be. However, that is not the focus of most of the information currently required in SEC reports.

In addition, several financial analysts said disclosures about significant or unusual changes, including rollforwards of account activity, aren't required and often aren't provided in the financial statements.

However, participants expressed diverse views about how to establish new requirements and whether a principles-based or rules-based system would be more effective. Some said more focus on principles and flexibility would result in better communication because companies would be able to emphasize material information, scale disclosures (e.g., based on relative importance) and abandon a checklist mentality. Others, particularly investors, were concerned that too much flexibility would reduce consistency and comparability. They said more structure and rule-based requirements would provide for users to obtain the information they want.

Materiality

Companies continue to struggle to make materiality judgments when evaluating whether a disclosure is necessary. Some participants believed the current disclosure system has deviated from the US Supreme Court definition of materiality, which states that information is material if it would (not could) significantly alter the total mix of information available in the view of a reasonable investor.[5] Participants noted that identifying a reasonable investor is challenging for companies.

Many said additional guidance is needed about the application of materiality in the context of disclosures.

Technology

SEC commissioners and staff members have said that they will consider how to leverage technology to facilitate user access to meaningful information as part of the SEC's disclosure effectiveness initiative. The staff and other constituents have been discussing revisions to the delivery system such as requiring that more static corporate information be segregated in a "company profile," linking to information that appears on a company's website and organizing disclosures more logically.

Participants acknowledged that improving the delivery system will take time but said it may have the most profound benefit for investors. Some said the new delivery system should allow users to drill down to detailed disclosures and use hyperlinks to access material corporate documents. One participant mentioned that technology must evolve even further to allow users to navigate and digest a company's disclosures in multiple ways.

> "I fully expect technology will evolve in the next five years to allow users to break down and structure the Form 10-K in any manner they want."
>
> — Financial analyst

[5] *TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449-450 (1976).

Specific disclosure areas

Risk factors

Many participants said risk factor disclosures require attention. They believe that, in practice, risk factors reported by companies are not sufficiently tailored to the entity and include too much boilerplate. Participants made several suggestions to improve these disclosures, including:

- Organize the risk factors by likelihood of occurrence or by potential magnitude
- Impose a word or number limit that forces companies to focus their risk factor disclosures
- Include a checklist for companies to identify generic risk factors but require only narrative disclosure of risks unique to the company

> "Risk factors are important; if only we could find a way to order and make them comprehensible."
>
> — Board member

Forward-looking disclosures

Many investors indicated they are most interested in forward-looking information, which is often only provided in a company's earnings release. SEC filings require disclosure of forward-looking information in limited cases. Some participants said that the SEC must address this gap as part of its disclosure effectiveness initiative.

Critical accounting estimates

Critical accounting estimates are those that are most important to the financial statement presentation and that require the most difficult, subjective and complex judgments. The SEC staff has commented that some registrants repeat verbatim in management's discussion and analysis (MD&A) portions of their footnotes on significant accounting policies. While the financial statement notes generally describe the accounting policies used to apply significant accounting principles, MD&A should provide insight into the uncertainties involved in applying key policies and the variability that is reasonably likely to result from their application.

Participants suggested that significant improvement is needed to reduce duplication and enhance the disclosures about critical accounting policies and estimates. However, most said that the existing SEC rules are sufficient to require or encourage more informative disclosures. Companies just need to do a better job describing the significant inputs, risks and reasons for changes in accounting estimates.

Sustainability and social responsibility disclosures

A growing number of investors are now voicing support for sustainability reporting that addresses environmental, social and governance matters, among other things. One participant said that the first step is to clearly define sustainability reporting. For some, that may mean whether the company has a business model that is sustainable.

Several investors suggested they would like to see additional disclosures about political spending, executive compensation (e.g., policies, practices and pay ratios) and board diversity. One individual stated, "We believe [board diversity] will make a difference in many impactful ways … in the long term, better decisions will be made."

Many executive participants, however, were concerned that sustainability disclosures would further overload SEC filings. They said sustainability disclosures may be important to certain users but should be provided outside of SEC reports.

Fair value, financial instruments and hedging

Several preparers identified footnotes related to fair value measurements, financial instruments and hedging as areas where the requirements are extensive but do not provide insight into a company's risk management strategy. For example, one participant said companies may not designate certain derivatives as hedges due to the complexity of the accounting standard, even though there is an economic hedge of the underlying risks. As a result, the extensive disclosures about those derivatives still fail to clearly communicate the company's actual risk exposure.

Segment reporting

Participants expressed diverse views about segment reporting requirements. Some investors and analysts said they wanted more granular disclosures about segments, including operational and balance sheet information. Other participants endorsed the management view of reporting and suggested the FASB should model other disclosure requirements on the segment reporting standard.

Interim disclosures

In recent years, new FASB standards have required essentially the same disclosures in both interim and annual financial statements. Many participants said the FASB should align US GAAP requirements with SEC rules[6] that presume users of quarterly financial information have read the annual report. They believe that interim financial statements should not be required to repeat annual disclosures unless doing so is necessary for a fair presentation.[7]

Although most participants agreed that interim reporting on a quarterly basis was appropriate, a few investors and analysts wanted more frequent (e.g., monthly) disclosure of certain financial data, such as cash flow information.

Other entity financial statements

SEC Regulation S-X requires registrants in certain circumstances to include in their SEC filings the financial statements of other entities, including acquired businesses, equity method investees, and subsidiary issuers and guarantors.[8] Preparing and auditing other entity financial statements can be costly and time-consuming, and several participants questioned whether users need or read this information. One preparer noted that the SEC rules specify quantitative significance thresholds and mandate certain reporting without consideration of materiality. The SEC staff has said that it is reviewing these requirements to identify ways to reduce the costs and burdens on companies while still providing material information to investors.[9]

In addition, one participant suggested that the SEC amend the requirements for pro forma financial information used to depict the effects of acquisitions and other transactions. This individual suggested the SEC allow companies more latitude to determine what pro forma adjustments should be included to provide the most useful disclosure for investors.[10]

[6] Regulation S-X, Rule 10-01 *Interim financial statements*.

[7] As part of its disclosure framework project, the FASB is considering amendments to ASC 270 to clarify that updated disclosures are not required if they don't significantly alter the total mix of information available to investors.

[8] Rules 3-05, 3-09 and 3-10 of Regulation S-X

[9] Keith Higgins, Director, Division of Corporation Finance, *Disclosure Effectiveness: Remarks Before the American Bar Association Business Law Section Spring Meeting*, 11 April 2014

[10] In accordance with Rule 11-02 of Regulation S-X, pro forma adjustments are material charges, credits and related tax effects that are directly attributable to the transaction and are factually supportable. In addition, only those items with a "continuing impact" should be presented as adjustments when preparing the pro forma income statement.

Voluntary improvements

The SEC allows and encourages companies to improve communication. For example, in 2003, the SEC issued FR-72, *Commission Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations*, which states that MD&A should enable investors to see the company through the eyes of management in a clear and understandable way.

Many companies have put in place various initiatives to improve their disclosures. In doing so, they had to consider time, cost and resource constraints, as well as regulatory disclosure requirements.

Process and stakeholders

When considering significant disclosure improvements, a participant stated, "You need to get courageous folks that are willing to do it." However, companies take different approaches to improve disclosure effectiveness. Some may target specific disclosure areas that are particularly complex or lengthy, while others may start with a blank sheet to rewrite sections of the financial statements and SEC reports.

Several executives described their companies' initiatives to rewrite large sections of their disclosure documents. One individual said, "We decided to go back to the requirements and what we want to say to tell our story." Executives said their disclosure initiatives involved early planning and coordination with various stakeholders, including:

- External reporting personnel
- The audit committee
- The disclosure committee
- Investor and public relations departments
- Lawyers and auditors
- Individuals from business operations

Other companies targeted one disclosure area at a time with a sustained focus on improving disclosures over several periods. The external reporting team identified the area that required the most attention, sought approval from the audit and disclosure committees and involved others in the organization, as necessary.

Participants questioned whether smaller companies have the resources to revamp their disclosures. One adviser stated that while larger companies have more resources, all companies are capable of making meaningful changes, regardless of their size. Some said smaller companies are more likely to follow market leaders that take the initiative to improve disclosures.

Overall, participants whose companies have embarked on these initiatives expressed a high level of satisfaction with the process and the ultimate outcome.

Interaction with audit committees and investors

Audit committees play a critical role in monitoring the financial reporting process and any disclosure effectiveness initiatives. One participant said audit committee members should view disclosures through the eyes of investors and provide input about the scope and extent of improvement efforts.

Outreach to investors was also cited as an important aspect of the process. Company executives shared several examples of feedback from investors that helped them refine and expand disclosures.

Identified areas for improvement

Participants discussed opportunities and challenges companies face in the following areas:

- Business disclosures — Several executives said their business disclosures had been rolled forward each period adding new information about recent developments. They said companies frequently can delete redundant and obsolete disclosure. In addition, companies may be able to rewrite this section to tell a more informative story about the business as it exists today.
- Critical accounting estimates — As previously mentioned, companies can improve disclosures about critical accounting estimates by providing better insight into their uncertainties and variability. Companies also have reduced repetition by cross-referencing the significant accounting policies footnote.
- Risk factors — Although some executives said their companies attempted to streamline risk factor disclosures, they noted that their efforts often were unsuccessful, mainly due to resistance from internal and external legal counsel.
- Pensions, loss contingency, financial instruments and stock compensation footnotes — These topics are lengthy and complex areas with many disclosure requirements. Several executives said their companies have streamlined these disclosures by challenging and eliminating disclosures that were not material.

Challenges to improving disclosure effectiveness

While participants identified a range of ways to improve the effectiveness of disclosures, they also identified several factors that add complexity or confusion to the disclosure requirements and make it difficult for companies to enhance their disclosures.

Legal, competitive and compliance risks

One participant said the threat of litigation has caused "defensive disclosure" that overloads SEC reports without communicating meaningful information. Many others agreed that legal pressures result in compliance-driven disclosures that don't help users.

Several executives noted it is challenging for companies to eliminate immaterial disclosures. They observed that, for one thing, they would need to develop robust documentation about their judgments to satisfy regulators who are closely scrutinizing financial reports and filings and independent auditors. They also suggested that materiality judgments are easy to second-guess. Some participants concluded that while companies might want to eliminate immaterial disclosures, they may ultimately conclude that the additional effort outweighs the benefits.

> "The pressure of making a mistake … is a big shadow over the entire process."
>
> — Company executive

Further, although companies often strive for transparent disclosures, participants indicated they must balance that goal with the possibility that public disclosure could cause competitive harm. Accordingly, several financial analysts voiced frustration that certain disclosures, such as disaggregated information about products and lines of business, were not disclosed for competitive reasons.

Benefits and incentives

Participants cited many benefits of improving disclosures, such as a lower cost of capital and improved stock performance, stronger coordination throughout the organization, and better communication with investors. One financial analyst said, "Analysts develop impressions of management teams and companies and what their attitude towards disclosure is. … We recognize those that are going through the motions and those that are trying to be transparent."

However, most investor groups do not have enough leverage to persuade companies to change their disclosures. Participants discussed the recent trend of companies voluntarily improving proxy statement disclosures but noted that investors have more influence over proxy statements because this disclosure relates directly to proxy votes (e.g., say-on-pay, election of directors) and corporate governance initiatives (e.g., shareholder proposals, activism).

Some participants said companies resist updating previous disclosures that were already reviewed by management, legal advisers and auditors. They also mentioned the burden of explaining disclosure changes to certain investors that compare SEC filings to those made in the prior year. However, others disagreed. They said many companies are willing to make voluntary improvements and are able to communicate the reason for those changes easily to investors.

Multiple objectives of disclosure requirements

US GAAP and SEC disclosure requirements often overlap. Slight differences in requirements cause confusion about whether there are different disclosure objectives and often result in redundancies. Several participants commented that the SEC and the FASB should work together to consider the purpose of the disclosure package and establish a cohesive objective.

Complexity of accounting standards and financial statements

Many participants agreed that the average investor cannot understand US GAAP financial statements. They observed that, as financial reporting becomes more complex, disclosures are increasingly burdensome to prepare.

The FASB is seeking to simplify accounting and disclosure requirements with a number of initiatives, including its simplification initiative to reduce the cost and complexity of financial reporting while still providing investors with the information they need. Under the initiative, the FASB is revisiting certain topics (e.g., inventory measurement, stock-based compensation, income taxes) in narrow, short-term projects.

Most of the dinner participants support simplification efforts and several said that significant changes to the accounting standards and disclosure requirements are needed. For example, several preparers said they spend significant time and effort to prepare disclosures about financial instruments under US GAAP that users neither understand nor find meaningful.

Conclusion

While participants in our dinners identified many hurdles to improving disclosures, their comments underscore the opportunities companies have to make changes and the ability of our financial reporting system to evolve.

Participants agreed there is a disclosure problem that regulators, companies, investors and other stakeholders must address together to promote the communication of material information more effectively. However, there are many challenges and questions that may be difficult to resolve, such as satisfying a broad range of investors, striking an appropriate balance in the disclosure framework between structure and flexibility, and addressing litigation and compliance concerns.

Several investors expressed concern that disclosure initiatives may eliminate certain requirements for disclosures that they use and want. However, they said that eliminating redundancies and requiring more meaningful communication would be helpful.

As the SEC staff and the FASB work on their disclosure projects, many companies have started or are considering enhancing their disclosures under the existing disclosure requirements. Their experience shows that companies can benefit from taking immediate action.

At EY, we encourage all stakeholders to continue this discussion and contribute to the broader dialogue by submitting comments and suggestions to the SEC and the FASB as they continue their journey to improve the effectiveness of corporate disclosures made to investors.

Refer to the following EY publications for more information on the SEC, FASB and IASB disclosure initiatives, as well as other perspectives about how companies might consider making their disclosures more effective, including illustrations, leading practices and practical steps:

EY resources

- Disclosure effectiveness — What companies can do now (SCORE No. CC0403), October 2014
- Applying IFRS — Improving disclosure effectiveness (EYG No. AU2513), July 2014
- To the Point — A framework to help the FASB establish effective disclosures (SCORE No. BB2707), March 2014
- To the Point — SEC staff recommends a comprehensive review of SEC disclosure requirements (SCORE No. CC0386), January 2014
- To the Point — The SEC's opportunity to consider disclosure overload (SCORE No. CC0359), October 2012
- To the Point — Now is the time to address disclosure overload (SCORE No. BB2367), June 2012

Appendix: Participant listing

Included below is a partial list of the dinner participants. Other participants wished to remain anonymous.

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Portfolio Manager, Financial Markets, Global Governance and Investments
California Public Employees' Retirement System

Mary E. Barth
Joan E. Horngren Professor of Accounting
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Peter M. Carlson
Chief Accounting Officer
MetLife, Inc.

Stephen J. Cosgrove
VP, Corporate Controller and Chief Accounting Officer
Johnson & Johnson

Jason Cuomo
VP, Senior Analyst
Moody's Investors Service, Inc.

Margaret M. Foran
Chief Governance Officer, VP and Corporate Secretary
Prudential Financial, Inc.

Frank R. Gatti
Director
H.S.Grace & Co. and NACD/NJ

Todd P. Gibbons
Vice Chairman and Chief Financial Officer
The Bank of New York Mellon Corporation

Stephen M. Graham
Managing Partner, Seattle Office
Fenwick & West LLP

Linda L. Griggs
Partner
Morgan, Lewis & Bockius LLP

DawnDee F. Hankel
External Reporting Controller
Intel Corporation

Jan R. Hauser
VP, Controller and Chief Accounting Officer
General Electric Company

Catherine P. Lego
Board member
SanDisk, Lam Research and Fairchild Semiconductor

Alyce Lomax
Analyst and Writer
The Motley Fool

Jeffrey P. Mahoney
General Counsel
The Council of Institutional Investors

Douglas L. Maine
Limited Partner and Senior Advisor
Brown Brothers Harriman & Co.

Keven Maloney
Managing Director
BlackRock, Inc.

John G. Morriss
Managing Director and Head of Fixed Income Research
TIAA-CREF Asset Management

Jonathan Nus
Senior Director
Standard & Poor's Ratings Services

Steve A. Odland
President and CEO
Committee for Economic Development

Tim L. Pebworth
VP, Corporate Controller
Aruba Networks, Inc.

Janet L. Pegg
Head of Valuation and Accounting
Cornerstone Capital Inc.

Sandra J. Peters
Head, Financial Reporting Policy Group
CFA Institute

Neila Beth Radin
SVP, Associate General Counsel
JP Morgan Chase & Co.

William Roberts
Head, Taxable Credit Research
The Vanguard Group Inc.

Lawrence J. Salva
SVP, Chief Accounting Officer and Controller
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Stephanie Shingai
Director, Corporate Reporting
Apple Inc.

Amie Thuener
Chief Accountant
Google Inc.

Jorge A. Vergara
Head of SEC Reporting and Technical Accounting
Aruba Networks, Inc.

Michael R. Young
Partner
Willkie Farr & Gallagher LLP

Michael Zimmer
Technical Accounting
Hewlett-Packard Company

Linda K. Zukauckas
EVP, Corporate Controller
American Express Company

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