



March 18, 2019

Ms. Vanessa Countryman
Acting Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. S7-26-18

Dear Ms. Countryman:

We appreciate the opportunity to provide input on the Securities and Exchange Commission's (the SEC or the "Commission") *Request for Comment on Earnings Releases and Quarterly Reports* (the "Request for Comment"). Our comments are based on our experiences in working with the SEC's disclosure requirements as independent auditors of our public clients.

The SEC's interim reporting framework establishes an essential form of communication between registrants and investors, facilitating the continued timely disclosure of material information. We believe that the SEC's interim reporting framework should be designed to meet the information needs of investors in an efficient and cost effective manner. We support the Commission's objective of exploring ways to promote efficiency in periodic reporting while maintaining investor protections.

We would be pleased to discuss our comments or to answer any questions that the SEC staff or the Commission may have. Please do not hesitate to contact John May (██████████), Wayne Carnall (██████████), or Diane Howell (██████████) regarding our submission.

Sincerely,

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP



I. Independent auditor involvement in the quarterly reporting process

Regulation S-X¹ requires registrants to have their interim financial information filed in a quarterly report on Form 10-Q reviewed by an independent public accountant in accordance with PCAOB standards. When the Commission established this requirement in December 1999, it stated that “discipline is needed for the quarterly financial reporting process” and that “early involvement of the auditors should reduce the likelihood of restatements or other year-end adjustments and enhance the reliability of financial information.”² We believe financial reporting is stronger because of this requirement, and the Commission’s observations are equally applicable today as they were almost two decades ago.

When engaged to perform these reviews, the auditor’s procedures are tailored for each registrant’s unique financial reporting processes. Further, auditors coordinate with management to meet the registrant’s planned reporting timelines to reduce the risk that the auditor’s required involvement may cause a delay in the registrant’s quarterly filings. The auditor’s interim reviews comply with the requirements of PCAOB AS 4105,³ which provides structure to the nature, timing, and extent of the procedures to be performed. Further, AS 4105 requires the independent auditor to read other information that accompanies the interim financial information (e.g., management’s discussion and analysis) and to take action if material inconsistencies are identified.

There are no rules or auditing standards relating to the independent auditor’s involvement with respect to earnings releases. Further, registrants may issue earnings releases at varying stages of their quarterly reporting process, and often do so before the independent auditor has completed their review of financial statements to be included in the Form 10-Q. As a result, there is significant diversity in practice on the procedures, if any, that registrants request their independent auditors to perform on the earnings release.

II. Quarterly financial reporting framework

We believe any changes to expand the use of earnings releases to satisfy portions of the reporting requirements of Form 10-Q should be based on the input of investors and registrants. In our role as independent auditors, we have identified the following challenges that would need to be addressed if any prospective rule changes are made.

- Registration statements (other than Form S-8) require financial statements that meet the age of financial statement requirements of Rule 3-12 of Regulation S-X (“Rule 3-12”). For existing registrants, this is generally satisfied by incorporating by reference various of their Exchange Act filings. Therefore, if the Commission were to change the required reporting frequency of Form 10-Q and wanted to retain symmetry between the Securities Act and the Securities Exchange Act regarding the age of financial statements, we believe corresponding changes would be necessary to Rule 3-12.
- The expanded use of earnings releases to satisfy portions of the reporting requirements of Form 10-Q would require incorporation by reference of that information into the Form 10-Q. This may cause conflicts with Item 10(d) of Regulation S-K that prohibits the use of “double incorporation

¹ Rule 10-01(d) of Regulation S-X, *Interim review by independent public accountant*

² See Securities Exchange Act Release No. 42266

³ PCAOB AS 4105, *Reviews of Interim Financial Information*



by reference”⁴ when a registrant later incorporates by reference that Form 10-Q into a registration statement. We recommend the Commission evaluate the methods utilized to incorporate by reference information into a Form 10-Q to ensure compliance with the requirements of Item 10(d) of Regulation S-K.

- The unstructured nature of earnings releases could make it challenging for investors to determine what information was subject to the independent auditor’s interim review procedures. Additional guidance would need to be developed.
- Independent auditors are regularly requested to issue comfort letters to underwriters or other requesting parties with a due diligence defense under Section 11 of the Securities Act in connection with a securities offering. At the request of underwriters, the majority of comfort letters include negative assurance on subsequent changes to specified financial statement items. Under current auditing standards,⁵ the independent auditor can only provide comfort on information that is of a date less than 135 days from the end of the most recent period audited or reviewed. If the Commission proposes rules that affect the frequency of interim reporting, there will be implications on the independent auditor’s ability to provide comfort to the underwriters unless the auditor were to perform a review not required under the Exchange Act. These incremental procedures, if not anticipated, could impact the timing of an offering.

III. Disclosure effectiveness

We recommend the SEC work collaboratively with the FASB to holistically improve the effectiveness and usefulness of interim disclosures required by GAAP. To this end, we support the SEC’s active participation in the FASB’s Disclosure Framework Project on Interim Reporting. Through this collaboration, we recommend the SEC and FASB continue to consider input from investors and preparers regarding the usefulness of disclosures and whether the benefits of providing certain interim disclosures justify the costs. As standards have been revised or updated, there has been a significant expansion in the disclosure required for interim periods. There are a number of accounting standards, such as ASC 815, *Derivatives and Hedging*, that require extensive interim disclosures that are similar to those required for annual periods. It appears that some of the required disclosures are inconsistent with the principle in Rule 10-01(a)(5) of Regulation S-X that permits the omission of certain footnote disclosures that substantially duplicate the disclosure contained in the most recent annual report to shareholders or audited financial statements. This section of Regulation S-X also includes a presumption that users of the interim financial information have read or have access to the audited financial statements for the preceding fiscal year.

We suggest the SEC and FASB work together to establish a holistic approach to interim reporting that reflects the conceptual guidance in Rule 10-01(a)(5) of Regulation S-X and limit new interim requirements to those describing (1) items that have changed materially since year-end and (2) material transactions. We believe limiting interim disclosures to these areas will enhance the prominence of relevant interim developments. For example, if an investor’s understanding of the derivative and hedging disclosures in the annual report would not change based on the interim disclosures that are currently required, we recommend the FASB and SEC evaluate if those disclosures could be omitted in the interim period. The SEC and FASB may want to consider the International Financial Reporting Standards approach to interim reporting, which would appear to be a more holistic approach.

⁴ Item 10(d) of Regulation S-K “..reference may not be made to any document which incorporates another document by reference if the pertinent portion of the document containing the information or financial statements to be incorporated by reference includes an incorporation by reference to another document.”

⁵ Paragraphs 45-53 of PCAOB AS 6101, *Letters for underwriters and certain other requesting parties*