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

SEC Release No. 33-10588; 34-84842; File No. S7-26-18
Request for Comment on Earnings Releases and Quarterly Reports

Dear Madam Secretary:

We appreciate the opportunity to respond to the Securities and Exchange Commission's (SEC's or Commission's) *Request for Comment on Earnings Releases and Quarterly Reports* (the Request for Comment). KPMG LLP supports the SEC's mission to enhance investor protection while promoting efficiency in the financial reporting system. We applaud the Commission's continued efforts to take a fresh look at the financial reporting requirements of the federal securities laws' rules and regulations to update and streamline them for the benefit of all market participants.

As the Request for Comment is focused on the nature and timing of periodic disclosure requirements and the interplay of earnings releases in the current periodic reporting regime, we recommend the Commission place emphasis on the feedback received from investors, issuers and other market participants related to their information needs. Because much of the financial information in Form 10-Q is subject to auditor review, the impact potential changes will have on the auditors' involvement must also be considered. Accordingly, we offer our observations on the Request for Comment to highlight periodic reporting matters we believe, as auditors, require consideration by the Commission due to the potential impact on financial reporting and capital formation. We recommend that the Commission:

- *Drive disclosure effectiveness* through streamlined periodic disclosure requirements developed in collaboration with the Financial Accounting Standards Board (FASB);
- Consider how the *Supplemental Approach* could impact auditor involvement in collaboration with the Public Company Accounting Oversight Board (PCAOB);
- Consider *incorporating a scalable frequency model* into the reporting framework for emerging growth companies (EGCs) and smaller reporting companies (SRCs) that are not active in the market;
- Consider how changes in *auditor involvement* could impact perception of an "expectation gap";
- Consider the impact less frequent periodic reporting may have on *capital formation*; and
- Provide detailed *transition guidance* to registrants.

Drive Disclosure Effectiveness

We believe it is appropriate for the SEC to routinely review the existing periodic reporting requirements as part of its disclosure effectiveness objective aimed at providing investors with the

most relevant information they need on a timely basis. The Request for Comment asks whether Form 10-Q requirements provide information that is not useful to investors or that can be communicated in a different manner outside of the periodic reporting cadence. The determination of what is useful to investors may vary depending on the nature and size of the registrant as well as the frequency in their accessing the capital markets. That being said, we still believe that, interim financial statements prepared in accordance with generally accepted accounting principles (GAAP) provide relevant, useful, and material information to investors. We believe that any changes to current reporting requirements should continue to support and promote consistency by anchoring them to GAAP financial statements, regardless of reporting frequency or method of communication.

Specifically, we highlight that ASC 270, *Interim Reporting*, includes minimum disclosure requirements for a set of interim financial statements. However, Rule 10-01(a)(5) of Regulation S-X permits companies to omit disclosures that substantially duplicate disclosures contained in the most recent audited annual report if the disclosures have not changed significantly in amount or composition. As a result, differences currently exist between the Commission's disclosure objective and GAAP. We believe that harmonizing the interim disclosure objectives would promote disclosure effectiveness and efficiency. Based on our observations, any changes to the current requirements should be made in collaboration with the FASB. Consideration should also be given to whether conforming changes are necessary to current professional auditing standards for performing interim reviews¹ and SEC rules and regulations, such as registration statement requirements.

Supplemental Approach Considerations

In the Request for Comment, the concept of a Supplemental Approach is introduced whereby a company could supplement its earnings release by providing additional material information on Form 10-Q, or incorporate information from a Form 8-K into Form 10-Q by reference. While using the earnings release to satisfy some or all of the Form 10-Q requirements may enhance disclosure effectiveness in some regards, making these changes will have broader ramifications. Specifically, the earnings release is not currently subject to auditor review procedures. Under current PCAOB auditing standards, there is no framework for an auditor to be associated with interim results without anchoring them to a complete set of interim financial statements compliant with GAAP. If auditor assurance over or association with items outside of historical financial information - such as non-GAAP financial measures and earnings forecasts that are frequently included in earnings releases - is required, then changes to the PCAOB's standards will be necessary. Therefore, we recommend the Commission carefully consider how any changes to periodic reporting might affect the level of assurance provided to investors, and work as needed with the FASB and the PCAOB to make conforming changes to GAAP and auditing standards, respectively.

¹ PCAOB Auditing Standard (AS) 4105, *Reviews of Interim Financial Information* (AS 4105)

Incorporate a Scalable Frequency Model

We believe the Commission could include a scalable frequency model in its regulatory framework where periodic information required to be filed by a registrant is commensurate with its issuer status. This could be accomplished using the existing issuer categories, and provide EGCs and SRCs an option to furnish interim disclosures on a less frequent basis. We would not recommend that additional issuer categories be created. As described below however, other barriers may still exist for registrants seeking to take advantage of such an accommodation.

A scaled approach to periodic reporting frequency would be commensurate with the scaled disclosure permissions under existing securities laws for EGCs and SRCs and consistent with prior decisions that the information needs of those companies' investors may vary from investors in larger reporting companies. Scaled frequency could require such companies to report at a minimum on a semi-annual basis, or voluntarily on a quarterly basis. Semi-annual reporting would be consistent with foreign private issuers who are required to report only on a semi-annual basis in their home-country markets and in registration statements filed with the SEC. In addition, semi-annual reporting would generate non-trivial cost savings for these smaller registrants while maintaining investors' access to timely interim information. The funds 'saved' could be spent on long-term objectives of these companies.

As noted above, we support such an election only for EGCs and SRCs; however, presently such scaled frequency could only work for those registrants that are not active in the capital markets. This is because of current registration statement requirements. Specifically, the preparation and review of quarterly financial information would still be necessary for companies active in the public capital markets, unless conforming changes were made to Regulation S-X. We discuss this observation in more detail below in "Impacts to Capital Formation". Also, a scalable frequency model should consider challenges EGCs that elect semi-annual reporting may encounter if they lose status prior to or at the end of the five-year period.

Auditor Involvement

In our view, changes made to periodic reporting requirements through the rulemaking process would not have an impact on audit quality. The quality of audits and interim reviews performed by independent accountants is grounded in the objectives of professional auditing standards and thus remains independent of the frequency of external reporting. Similarly, management's responsibility to maintain a high degree of rigor and oversight in the financial reporting process is essential and should remain unchanged regardless of reporting frequency.

Interim reviews of quarterly financial information by independent accountants have been a long-standing component of the periodic reporting process which investors and other financial statement users are accustomed to and knowledgeable about. These market participants have historically relied on the negative assurance provided by the auditors' review for their investment decisions. The auditors' involvement is also currently important within the capital raising process.

To maintain the current levels of investor protection, we believe auditor involvement with periodic reporting should be maintained.

To prevent a widening of the “expectation gap” by investors regarding what information they believe has been audited or reviewed and what information the auditor actually has audited or reviewed, consideration should be given to whether existing auditing or accounting standards require amendment. Aside from the need for a complete set of interim financial information as discussed above, the Supplemental Approach might create confusion for investors in regards to what information has been subjected to the auditors’ review procedures. Diverse presentation between companies using the Supplemental Approach could confuse investors as it may also be unclear which information has been subjected to auditor review when comparing the earnings releases of different companies. Investors may not be aware that the financial information provided in the earnings release of a company is not prepared in accordance with Regulation S-X and has not been subject to auditor review procedures if there is no established framework. Changes would require collaboration with the FASB and PCAOB to establish a new interim financial reporting framework or to amend auditing standards as necessary, respectively, so that investors receive reliable and quality information.

Impacts to Capital Formation

Overall, we believe the frequency of periodic reporting should reflect the needs of investors, which as noted above could permit a scalable model based on issuer categories that promotes quality financial reporting. If the frequency of periodic financial reporting were reduced for all companies regardless of size, we foresee challenges that might create barriers to capital formation that should be considered by the Commission.

Currently, SEC rules and regulations require registration statements to include interim financial statements that comply with the age requirements of Rule 3-12 of Regulation S-X. In connection with these registration statements, auditors are often requested by underwriters to perform additional procedures on the interim financial information. PCAOB AS 6101, *Letters for Underwriters and Certain Other Requesting Parties*, requires the auditor to have performed an audit or interim review in order to provide comfort to the underwriter. Decreasing the frequency of reporting could create complexities that may limit the ability or level of comfort an auditor can provide to an underwriter. For example, when there is a change in auditor, an auditor is not in a position to issue an AS6101 compliant letter until a review of the first interim period following the change is completed. If there is a decrease in reporting frequency, capital raising activities would be delayed until the auditor’s review procedures were completed on the first interim period – however long that period may be.

We believe that many companies, particularly large companies and those that are active in the capital markets, will continue to prepare quarterly information and engage auditors to perform quarterly reviews in order to prevent delays in their capital raising efforts. Accordingly, allowances in reporting frequency would not change current practice or result in cost savings for

many companies. On that basis, we emphasize that a scalable frequency model may provide relief to EGCs and SRCs that are less active in the capital markets, while maintaining appropriate protections for investors in larger companies.

Transition Guidance

In our experience, detailed transition guidance provided within a rule facilitates smooth implementation of that new rule. On that basis, we encourage the Commission to provide detailed transition guidance within any proposed or final rule that addresses the effective date, including consideration of the timing of the rule's effective date and approaching relevant filing deadlines.

Additionally, if a scalable model is incorporated into the periodic reporting regime whereby EGCs and SRCs are permitted to report less frequently, we recommend the Commission consider how companies would transition between periodic reporting approaches when there is change in issuer category (requiring the company to change its reporting frequency), and if voluntary changes are permitted. Consideration should include requirements in the first periodic report following transition, since interim periods required to be presented would not be comparable with interim periods previously filed.

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We appreciate the opportunity to respond to the Request for Comment. If you have any questions regarding our comments or other information included in this letter, please do not hesitate to contact Jeffrey Jones [REDACTED] or [REDACTED] or Timothy Brown [REDACTED] or [REDACTED].

Very truly yours,

KPMG LLP

KPMG LLP

cc:

Mr. Jay Clayton, Chairman
Mr. Robert J. Jackson Jr., Commissioner
Ms. Hester M. Peirce, Commissioner
Mr. Elad L. Roisman, Commissioner
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