

Snapshot

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SEC updates certain Regulation S-K disclosures

The SEC issued a [Final Rule](#), *Modernization of Regulation S-K Items 101, 103, and 105*, to update the description of business, legal proceedings, and risk factor disclosure requirements in Regulation S-K, which have not been significantly revised in over 30 years. The amendments to Item 101, *Description of business*, and Item 105, *Risk factors*, emphasize a principles-based approach, whereas the amendments to Item 103, *Legal proceedings*, remain more prescriptive.

The Final Rule, part of the SEC's disclosure effectiveness initiative, is intended to improve disclosures for investors and to add compliance efficiencies for registrants.

The amendments are effective 30 days after publication in the *Federal Register*.

Description of business

The amendments eliminate the requirement in S-K Item 101(a) to describe the general development of the business over the past five years, and instead require a registrant to disclose information that is material to an understanding of the development of the business, irrespective of the timeframe.

For filings made after a registrant's initial registration statement, the amendments allow a registrant to provide only an update on material developments that have occurred since the most recent full discussion was disclosed in a filing, with a hyperlink to that prior filing.

The amendments to S-K Item 101(c) provide an expanded nonexclusive list of disclosure topics for a registrant to consider when providing a narrative description of the business, including human capital disclosures. Such topics include a description of

human capital resources as well as measures or objectives used in managing the business, to the extent they are material.

Legal proceedings

To reduce duplicative disclosures, the Final Rule amends S-K Item 103 to allow a registrant to use hyperlinks or cross-references to legal proceeding disclosures located elsewhere in the document.

Further, the amendments increase the threshold for the disclosure of environmental proceedings where the government is a party to either (1) \$300,000, or (2) an alternative threshold based on materiality determined by the registrant, not to exceed \$1 million or 1 percent of the registrant's consolidated current assets.

Risk factors

The amendments to S-K Item 105 are intended to address the perceived lengthy and generic nature of risk factor disclosures, by requiring a summary risk factor disclosure if the section exceeds 15 pages and replacing the requirement to disclose the "most significant" factors with "material" factors. The amendments also require registrants to organize the risk factors under relevant headings and to disclose any risk factor that may generally apply to an investment in securities at the end of the section under a separate caption.

Grant Thornton insight

While the Final Rule does not expressly address environmental, social, and governance disclosures, those issues, if material, are required to be disclosed under the SEC's principles-based framework.

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