



New Developments Summary

SEC simplifies disclosure requirements

Final rule intended to reduce issuer compliance costs

Summary

The Securities and Exchange Commission (SEC or Commission) recently adopted the [Final Rule, Disclosure Update and Simplification](#), streamlining certain disclosure requirements to reduce redundant, duplicative, or outdated disclosures due to changes in U.S. GAAP, IFRS Standards, or other Commission disclosure requirements, or simply due to the passage of time.

The amendments generally have the effect of eliminating disclosures in registrant filings, but also include one notable expansion for disclosures related to interim-period changes in stockholders' equity and noncontrolling interests.

The amendments affect many aspects of the SEC's disclosure regime, including requirements in Regulations S-K and S-X, the Securities Act, the Exchange Act, and many SEC forms, and are intended to simplify issuer compliance efforts while providing investors with substantially the same information. To assist companies with understanding the amendments in the SEC's rules and forms, a [Demonstration Version](#) of the Final Rule was published.

The Final Rule is mainly applicable to domestic issuers and foreign private issuers; however, some amendments apply to other entities. Those entities may include significant acquirees and significant equity method investments for which financial statements are required under Regulation S-X, Rules 3-05 and 3-09, respectively, as well as Regulation A issuers, investment advisers, investment companies, broker-dealers, and nationally recognized statistical rating organizations.

As of the date of this NDS, the Final Rule has not been published in the *Federal Register*, but the Final Rule will become effective 30 days after such publication. Further, the SEC staff will review and report to the Commission on how the amendments have impacted disclosures and capital formation no later than five years after the Final Rule's effective date.

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A. Stockholders' equity disclosure extended to interim periods

The Final Rule amends certain SEC rules and forms to remove or modify disclosure requirements that require substantially similar information under U.S. GAAP, IFRS Standards, or other Commission requirements, as well as information that has become outdated over time. The amendments are not intended to substantially change the information provided to investors but are designed to reduce the amount of duplication presented by companies and to decrease issuer compliance costs. Some of the amendments remove a disclosure requirement from outside the financial statements while retaining the requirement within the financial statements, which might change the prominence of the disclosure but does not change the information available to investors.

While most of the amendments included in the SEC's Final Rule eliminate certain disclosure requirements, as outlined below, we highlight one amendment that results in expanded interim disclosures for changes in stockholders' equity and noncontrolling interests. Regulation S-X (S-X), Rule 3-04, requires the disclosure of changes in stockholders' equity, including dividends-per-share amounts, presented either in a note to the financial statements or in a separate financial statement. The Final Rule amends S-X Rules 8-03(a)(5) and 10-01(a)(7) by extending the disclosure requirements in Rule 3-04 to interim periods. The new interim period disclosure requirement might create an additional burden on companies since it requires disclosure of dividends per share for each class of shares rather than only for common stock, as well as disclosure of the changes in stockholders' equity in interim periods.

The Final Rule also clarifies that the disclosure should be in the form of a reconciliation and include both the year-to-date and the current interim period's information.

The SEC's Division of Corporation Finance staff added Question 105.09 to its [Exchange Act Forms Compliance and Disclosure Interpretations](#) to clarify that the staff would not object if a filer's first presentation of the expanded interim disclosure regarding changes in stockholders' equity is included in its Form 10-Q for the quarter that begins after the effective date of the Final Rule. Accordingly, a December 31 fiscal year-end filer could omit this disclosure from its September 30, 2018 Form 10-Q.

B. Eliminated or modified disclosure requirements

S-X disclosure requirements

The tables below summarize the S-X disclosure requirements that were eliminated or modified by the Final Rule and refers to similar disclosures that remain in U.S. GAAP or Regulation S-K (S-K), if applicable.

Topic	Eliminated S-X requirement	Related disclosure
Consolidation	Rule 3A-02(b)(1): Consolidation of an entity's financial statements permitted for its fiscal year if the period does not differ from that of the issuer by more than 93 days and requires disclosure of material intervening events	ASC 810-10-45-12

Topic	Eliminated S-X requirement	Related disclosure
Consolidation	Rule 3A-02(d): Consideration of the propriety of consolidating subsidiaries subject to certain restrictions	ASC 810-10-15-10
Consolidation	Rules 3A-02 and 3A-03(a): Accounting policies followed in consolidation or combination	ASC 235-10-50-1 and ASC 810-10-50-1
Consolidation	Rule 3A-03(b): Disclose any changes in the fiscal periods which have a material effect on the financial statements	ASC 810-10-45-13
Consolidation	Rule 3A-04: Intercompany transactions	ASC 323-10-35-5a and ASC 810-10-45-1 through 45-9
Consolidation	Rule 4-08(a): Reference to comply with Article 3A	Article 3A
Obligations	Rule 4-08(f): Disclosure of significant changes in amounts of debt issued subsequent to the latest balance-sheet date	ASC 855-10-50-2 and 55-2a
Income tax disclosures	Rule 4-08(h)(2): Income tax rate reconciliation	ASC 740-10-50-12
Warrants, rights, or convertible instruments	Rule 4-08(i): Presentation of the title and amount of securities subject to warrants or rights, the exercise price, and the exercise period	Noncompensatory warrants or rights: ASC 505-10-50-3 and ASC 815-40-50-5 Compensatory warrants or rights: ASC 505-10-50-3 and ASC 718-10-50-1 and 50-2
Related parties	Rule 4-08(k)(1): Reference to identification of related-party transactions	ASC 850-10-50-1

Topic	Eliminated S-X requirement	Related disclosure
Contingencies	Rules 8-03(b)(2) and 10-01(a)(5): Disclosure of material contingencies in interim financial statements	ASC 270-10-50-6
Earnings per share	Rule 10-01(b)(2): Presentation of earnings per share on the face of the interim income statement	ASC 270-10-50-1b
Insurance companies	Rule 7-03(a)(11): Description of the activities reported in separate accounts	ASC 944-80-50-1a
Insurance companies	Rule 7-04.3(c): Methods followed in determining the cost of investments sold	ASC 235-10-50-1 and ASC 320-10-50-9b
Bank holding companies	Rule 9-03.6(a): Carrying and market values of certain securities	ASC 320-10-50-1B, 50-2, and 50-5, and ASC 942-320-50-2
Bank holding companies	Rule 9-03.7(d): Changes in the allowance for loan losses	ASC 310-10-50-11B(c)
Bank holding companies	Rule 9-04.13(h): Method followed in determining the cost of investment securities	ASC 235-10-50-1 and ASC 320-10-50-9b
Interim adjustments	Rules 8-03(d) and 10-01(b)(8): Examples of adjustments in order for interim financial statements to be fairly stated	ASC 270-10-45-10
Interim financial statements – common control transactions	Rule 10-01(b)(3): Reflect common control transactions in current and comparative prior-period interim financial statements	ASC 805-50-45-1 to 45-5
Interim financial statements – dispositions	Rule 10-01(b)(5): Effect of discontinued operations on interim revenues, net income, and earnings per share for all periods	ASC 205-20-50-5B and 50-5C, ASC 260-10-45-3, and ASC 270-10-50-7

Topic	Eliminated S-X requirement	Related disclosure
Interim financial statements – changes in accounting principles	Rules 8-03(b)(5) and 10-01(b)(6): Reasons for making material accounting changes in an interim period	ASC 250-10-45-12 to 45-16 and 50-1a, and ASC 270-10-50-1g
Interim financial statements – pro forma financial information for business combinations	Rules 8-03(b)(4) and 10-01(b)(4): Requirement for pro forma financial information in interim filings for business combinations	ASC 270-10-50-7, which refers to ASC 805-10-50-2h.3
Interim financial statements – material events	Rules 8-03(b)(2) and 10-01(a)(5): Requirement to disclose material events subsequent to the most recent fiscal year-end	ASC 270-10-50-1 and 50-7 and S-K Item 303(b)
Derivative accounting policies	Rule 4-08(n): All requirements, with the exception of the disclosure of where the effect of derivative financial instruments is reported in the statement of cash flows	ASC 815 and ASC 230
REIT disclosures – undistributed gains or losses on the sale of properties	Rule 3-15(a)(2): Incremental requirement to separately present undistributed gain/loss on the sale of properties on a book basis	ASC 505-10-45
REIT disclosures – status as a REIT	Rule 3-15(b): Requirement to disclose trust status as a REIT under the applicable IRS code	S-K Items 101(a)(1), 503(c), and 303(a)(3)(ii)
Distributable earnings for registered investment companies	Rule 6-09.7: Requirement for parenthetical disclosure of undistributed net investment income in the statement of changes in net assets on a book basis	None
Insurance companies – liability assumptions	Rule 7-03(a)(13)(b): Requirement to disclose the basis of assumptions (interest rates, mortality, and withdrawals)	ASC 944-40-50
Insurance companies – reinsurance transaction	Rule 7-03(a)(13)(c): Requirement to disclose the general nature of reinsurance transactions	ASC 944-20-50-3 and 50-4 and S-K Item 303(a)(3)(i)

Topic	Eliminated S-X requirement	Related disclosure
Segments	Rule 3-03(e): Requirement to disclose segment information for each period presented	ASC 280-10-50-20

Topic	Modified S-X requirement	Related disclosure
Distributable earnings for registered investment companies	<p>Rule 6-04.17: Modified to require presentation of the total, rather than the components, of distributable earnings on the balance sheet</p> <p>Rule 6-09.3: Modified to require presentation of total, rather than the components, of distributions to shareholders, except for tax return of capital distributions</p>	ASC 946-20-50-11

S-K disclosure requirements

The table below summarizes the S-K disclosure requirements that were eliminated or modified by the Final Rule and the reference to similar disclosures that remain in U.S. GAAP, IFRS Standards, S-K, or S-X, if applicable.

Topic	Eliminated S-K requirement	Related disclosure
Earnings per share	Item 601(b)(11) and Instruction 6 of Form 20-F: Requirement to disclose the computation of earnings per share in annual filings	ASC 260-10-50-1a, S-X Rule 10-01(b)(2), and IAS 33, Paragraph 70
Report furnished to security holders	<p>Item 601(b)(19): Instruction to incorporate by reference in Form 10-Q report furnished to security holders</p> <p>Item 601(b)(13) was modified to clarify that it applies to Form 10-Q</p>	S-K Item 601(b)(13)
Research and development (R&D) activities	Items 101(c)(1)(xi) and 101(h)(4)(x): Requirement to disclose the amount of R&D activities for all years presented	ASC 730-10-50-1 and ASC 730-20-50-1

Topic	Eliminated S-K requirement	Related disclosure
	<p>Item 5.C of Form 20-F: Requirement to disclose the amount spent on R&D activities</p> <p>Item 7(a)(1)(iii) of Form 1-A</p>	IAS 38
Warrants, rights, and convertible instruments	Item 201(a)(2)(i): Requirement to disclose the amount of common equity subject to outstanding options, warrants, or convertible securities when the class of common equity has no established U.S. public trading	ASC 260-10-50, ASC 470-20-50, ASC 505-10-50-3 and ASC 505-50-50-1, ASC 718-10-50-1 and 50-2, and ASC 815-40-50-5
Ratio of earnings to fixed charges	Items 503(d), 503(e), and 601(b)(12) and Instruction 7 of Form 20-F: Requirement to disclose the ratio of earnings to fixed charges	None
Dividends	Item 201(c)(1): Requirement to disclose the frequency and amount of cash dividends declared	S-X Rules 3-04, 8-03, and 10-01
Invitations for competitive bids	Item 601(b)(26): Requirement to file any invitation for competitive bid related to the offering of securities	None
Segments	Item 101(b) and Item 7b of Form 1-A: Requirement to disclose segment financial information	Item 303(b) and ASC 280-10-50-22, 50-34, and 50-35
Geographic areas	<p>Items 101(d)(1) – 101(d)(4): Requirement to disclose financial information by geographic areas</p> <p>Item 303(b) was also modified to add an explicit reference to “geographic areas”</p>	ASC 280-10-50-41
Seasonality	Instruction 5 to Item 303(b): Requirement to disclose seasonality	ASC 270

Disclosure requirements integrated

The Final Rule streamlines certain SEC rules and forms that overlap with, but require incremental information to, other Commission disclosure requirements by relocating the requirements elsewhere in the Commission's rules and forms, as follows:

- *Foreign-currency restrictions* – The requirement in S-X Rule 3A-02(d) to disclose the effect of foreign subsidiaries' currency exchange restrictions upon the consolidated financial position and operating results of the issuer and its subsidiaries was relocated to Rule 3-20(b), which addresses other currency matters. The reference to "foreign private issuers" (FPIs) in the title of Rule 3-20 was also removed since the relocated requirement applies to all issuers.
- *Restrictions on dividends and related items:*
 - For domestic issuers:
 - The requirements in S-K Item 201(c)(1) to disclose restrictions that currently, or are likely to, materially limit the issuer's ability to pay dividends on its common equity, along with the requirements in S-X Rule 4-08(d)(2) to disclose certain restrictions on retained earnings, were consolidated and relocated to Rule 4-08(e)(3).
 - The bright line threshold of 25 percent was amended to state "when material" in S-X Rule 4-08(e)(3).
 - The definition of "restricted net assets" was moved from S-X Rule 4-08(e)(3) to S-X Rule 1-02.
 - For FPIs:
 - Deleted the dividend restriction disclosures in Items 10.F and 14.B in Form 20-F, since this disclosure is required in the notes to the financial statements.

Outdated or superseded references and requirements

Previously removed from U.S. GAAP

The Final Rule also eliminates numerous references and requirements in various SEC rules and forms that are no longer relevant since the FASB had previously eliminated the same requirement in U.S. GAAP. We do not expect the elimination of such references by the Commission to have an impact on the disclosure requirements or the application of the SEC rules for entities. Examples of references removed include terms such as "development stage companies," "extraordinary items," and "cumulative effect of a change in accounting principal." Examples of references that are being replaced include changing "pooling-of-interests" to "combinations of entities under common control," and changing "income statement" with "statement of comprehensive income."

Superseded by other Commission guidance

When Public Company Accounting Oversight Board (PCAOB) standards were originally established, many of the Commission's rules and forms were not modified to refer to PCAOB standards rather than Generally Accepted Accounting Standards (GAAS). To bridge this gap, in 2004, the Commission published interpretive guidance explaining that references to GAAS in rules and staff guidance should be understood to mean PCAOB standards. The Final Rule amends the applicable rules and forms impacted and replaces references to GAAS with references to PCAOB standards or professional standards and other conforming language.

Other requirements eliminated or amended as a result of other Commission guidance superseding the original requirement include

- Requirement in S-K Item 601(b)(22) to include a published report regarding matters submitted to a vote by securities holders since shareholder voting results are required to be disclosed in other periodic and current reports
- Requirement in Form 20-F to present selected financial data in accordance with U.S. GAAP for FPIs that report under IFRS Standards
- Amendment to S-X references in Forms 1-A and 1-SA to apply only to Regulation A issuers that report under U.S. GAAP

Further, the Final Rule amends various references in SEC rules and forms that contained either incorrect references or references that no longer exist, none of which are considered to be substantial.

Outdated

The Final Rule also makes amendments to the SEC's rules and forms to remove certain requirements that have become outdated due to the passage of time or changes in the regulatory, business, or technological environments. The most notable amendments include

- The deletion of the market price disclosure for high and low sales prices and sales prices as of the latest practicable date if the issuer's common equity is traded in an established public trading market; instead, the issuer is required to disclose the trading symbol
- The deletion of the requirement to identify the Commission's Public Reference Room and to disclose the company's physical address and phone number
- The deletion of the requirement for FPIs to provide exchange-rate data when financial statements are prepared in a currency other than the U.S. dollar
- The deletion of the reference to a waiver in Form 20-F and clarification of when an FPI may comply with the aging requirement to include audited financial statements in an initial public offering that are not older than 15 months compared to the 12 months aging requirement

Finally, the Final Rule expands the requirement to disclose the company's internet address to all issuers.

C. Disclosure requirements referred to the FASB

The SEC also referred certain disclosure requirements that overlap with U.S. GAAP, but require incremental information, to the FASB for potential incorporation into U.S. GAAP as part of its standard-setting process. The Commission has requested that the FASB complete this review within 18 months after the Final Rule is published in the *Federal Register*.

Any change in U.S. GAAP as a result of this review would go through the FASB's comprehensive due process procedures and would be covered in a future bulletin.

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