



The Association of
Accountants and
Financial Professionals
in Business

July 29, 2016

Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File No. S7-06-16, *Business and Financial Disclosures Required by Regulation S-K*

Dear Secretary:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Securities and Exchange Commission's (SEC) Concept Release, File No. S7-06-16, *Business and Financial Disclosures Required by Regulation S-K* (Release).

The IMA is a global association representing over 80,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

We commend the Commission and staff for such a comprehensive rethinking of Regulation S-K. Below are thematic approaches that we recommend that the staff use for the revisions. Because of the strong inter-relationship between disclosures under Regulation S-K and the financial statements and notes covered by Regulation S-X, some of our thoughts also apply to the latter. Our recommendations consider many of the questions asked by the staff in the Concept Release.

Emphasize quality over quantity. Many have expressed concerns about the relentless growth in the quantity of information required in SEC documents, which makes it more difficult for investors to separate the information more useful to them from that which is less useful. A further burden on investors from this information expansion is the increasing cost of producing the information and auditing some of that information, which reduces resources available to the registrant to invest in other priorities or to provide investors with returns on their investments.

Avoid repetition. The current disclosure model has served its purposes well, but was developed when information about registrants was much less readily available. Consider the following means to reduce repetitive information in today's electronic information age.



- **With previously filed documents.** The repetition of the prior year's analysis of the results of operations is a clear example of unnecessary repetitive information.
- **With other information provided by registrants.** Registrants typically make timely and often extensive information available on their websites, in connection with earnings press releases and other events. Such content is developed over time in response to investor inquiries. We recommend embracing cross-references to such information, using hyperlinks or other technology-enabled approaches with appropriate measures so that such information remains supplementary and does not become part of an SEC filing with the attendant legal ramifications.
- **Within filed documents.** There is also repetition that has developed within documents, such as between Management's Discussion and Analysis and the notes to the financial statements. Realizing the information in the notes is generally prescribed by Generally Accepted Accounting Principles (GAAP), we recommend consideration be given to explicitly excluding from the MD&A information already included in the financial statements and notes and instead requiring cross-references.

Consider leveraging a basic disclosure document. A basic document, a company profile with the business description and other information such as found in an S-1 for a new registrant, would contain information that, once disclosed, would be updated as necessary but not repeated. Risk factors come to mind as an example of disclosure well suited to this approach. This could help reduce the increasing and daunting size of many Annual Reports on Form 10-K.

Return quarterly reporting to a supporting role. While it has long been a practice of US companies to publicly release earnings, the quarterly reporting process had traditionally been viewed as an update to the annual reporting process, with interim periods viewed as integral parts of the annual period and users assumed to be familiar with prior annual reports. In fact, the SEC's integrated reporting model provides the architecture for this model. More recently, quarterly reporting has become a platform for a mini-annual reporting process, with lengthy disclosures that are often repetitive of prior disclosures, largely as a result of US GAAP requirements. Given the ease of retrieving previously disclosed information, this form of repetition is unnecessary. We recommend that the SEC work with the FASB to re-focus quarterly disclosures on presenting fresh data as opposed to lengthy disclosures. In short, we believe it is time to "dial it back" on the quarters.

We believe this will help provide investors with timely information that is more readily accessible and at a more reasonable cost, while avoiding an over-emphasis on quarterly reporting that may be contributing to an excessively short-term focus by investors and managers. We note in this regard that some have advocated abolishing quarterly reporting, or replacing it with the six-month model in use elsewhere. We do not believe it is practical, or perhaps even fair to investors, to make such a significant reduction in the availability of timely information in the US market environment.

Pursue an objectives-based approach. Much has been written on this topic, but like many things it is easier to advocate than implement. A few thoughts on how to implement follow.



- **Analogize to segment reporting.** An analogy that might be helpful is the evolution of segment reporting requirements. Segment reporting is generally thought to have improved under the current model, the objective of which is to report segments based on how management views and manages the business. We believe that the clarity and simplicity of this objective contributes to the improved reporting.
- **Review website disclosures.** It may be helpful, in formulating other disclosure objectives, to consider the substantial information companies currently make available to investors on company websites, as mentioned above. A study of that information would shed light on what investors consider decision useful information.
- **Adopt a layered approach.** One way to manage a large amount of information is to improve how it is organized. A table of contents should be required. Consider also requiring an executive summary, which would stand alone as a high-level explanation of, for example, business developments and results in a given period. The summary can then be followed by supporting detail for readers who desire it.

Work with the FASB on its disclosure framework project. As we mentioned at the outset, many of these themes also apply to the financial statements and notes. The process of providing investors with decision useful information is a partnership among various stakeholders, and from a standard-setting point of view, the partnership between the SEC and the FASB is paramount, cuts across industries and applies to companies of all sizes. We recommend the staff work in partnership with the FASB to develop an objectives-based approach that reflects current realities of information availability and market needs.

Move beyond XBRL. This was an important initiative when conceived and implemented, but its results have fallen short of investor expectations. We believe it is time to explore a successor to XBRL for the purpose of making financial data in MD&A and other Regulation S-K disclosures, as well as financial statements and notes, available to investors.

Proceed cautiously in certain other areas. Finally, our thoughts on some topics we recommend be approached cautiously follow.

- **Materiality.** We believe that the existing approach to materiality, having been developed over the years through court decisions and other precedents, is well understood and should not be modified.
- **Large company/small company distinctions.** While we realize some distinctions are driven by legislation, we feel this path is fraught with peril for investors. Investors deserve information about the risks they are undertaking, and smaller firms do not necessarily bear smaller risks. For example, risks in internal control over financial reporting are likely higher at smaller registrants due to smaller staff size and less resources, so an auditor's attestation on ICFR would seem desirable for investors. If it is desired to provide regulatory relief for smaller firms because the



costs of a particular disclosure may exceed the benefits, the same issue should be examined for larger firms as well. The only relief that we believe is clearly appropriate is delayed timing.

- **Public policy and sustainability reporting.** While we recognize the importance of this topic to certain investors, we also recognize the responsibilities and potential liabilities inherent in reporting public policy and sustainability matters, such as the use of “conflict minerals” and the impact of climate change, under the Securities Acts and in the US legal environment. We believe that the SEC’s current position that if any such matters are material to the registrant under current securities laws that those public policy or sustainability issues must be disclosed and that no further requirements are necessary.

The establishment of any SEC reporting requirements in this area (beyond what is required under the current SEC reporting scheme) must be contingent on the development **by the SEC** of a reporting model, including the attendant related internal control considerations, for such measures.

- **Pursuit of political goals.** The purpose of securities regulation is to protect investors, and the pursuit of that purpose is diluted if other goals, such as the disclosure of political spending, are injected into the mix. As observed above, investors face a growing challenge of information expansion as it is, without injecting further data about matters that are of interest to particular interest groups but not to investors as a whole.

We would be pleased to discuss our comments with the SEC staff at their convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

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