

SEC Adopts Amendments to MD&A and Other Financial Disclosure Requirements

November 23, 2020

On November 19, the U.S. Securities and Exchange Commission (SEC) [adopted amendments](#) to modernize, streamline and enhance certain financial disclosure requirements in Regulation S-K.¹ The final amendments:

- Eliminate the requirements to provide a Selected Financial Data table (Item 301) and Contractual Obligations table (Item 303(a)(5));
- Streamline the requirement to disclose Supplemental Financial Information (Item 302); and
- Revise the Management's Discussion & Analysis of Financial Condition and Results of Operations (MD&A) disclosure requirements (Item 303) to clarify the objective of MD&A and emphasize a more principles-based approach.

To “sharpen the focus on material information,” the amendments are intended to improve the quality of MD&A disclosures, reduce duplicative disclosures and reduce the compliance burden on companies. The amendments were informed by input from public comment letters, the SEC’s Division of Corporation Finance’s disclosure review process and recommendations adopted by the SEC’s Investor Advisory Committee in May 2020.² They also respond to changes in GAAP requirements and technological advancements since the adoption of Regulation S-K in 1977, particularly the availability of financial statements and other disclosures previously filed on EDGAR. The SEC adopted the majority of the amendments as [proposed](#) in January 2020 but adopted certain rules with modifications in response to comments received on the proposal.

The final amendments were adopted by a 3-2 vote. Commissioners Caroline Crenshaw and Allison Herren Lee dissented and issued a [public statement](#) explaining their main objections to the final amendments. First, they believe eliminating the contractual obligations table “obscures information investors need, and, at worst, makes some information, such as purchase obligations, inaccessible.” Second, they expressed disappointment that the rules fail to address climate risk and human capital management and argued that the principles-based approach the SEC has historically taken has not yielded useful disclosures in these areas. They reiterated prior calls for the SEC to form an internal task force and an external advisory committee devoted to guiding the SEC in revising and expanding its approach to, and regulation of, environmental, social and governance (ESG) disclosures. In the adopting release, the SEC noted that, in keeping with its principles-based approach to MD&A, it did not add new disclosure requirements to Item 303 with respect to ESG or sustainability matters but continues to encourage companies to comply with its existing guidance on such topics.

The changes to the required MD&A disclosures in Item 303 of Regulation S-K, which are discussed in detail below, emphasize the principles-based approach that the SEC has favored for the past several years³ and eliminate several more prescriptive requirements. These amendments have the potential to alter significantly the mix and granularity of certain quantitative and narrative disclosures that companies provide in their quarterly and annual disclosures. For example, the amendments eliminate the requirements for separately-captioned subsections for off-balance sheet arrangements and tabular disclosure of contractual obligations. Instead, the

¹ *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*, Release No. 33-10890 (Nov. 19, 2020), available [here](#).

² U.S. Securities and Exchange Commission Investor Advisory Committee, *Recommendation of the SEC Investor Advisory Committee (IAC) Relating to Accounting and Financial Disclosure* (May 21, 2020), available [here](#).

³ SEC Chairman Jay Clayton and Corporation Finance Director William Hinman have spoken several times in support of a principles-based approach, including, e.g., in their recent respective statements available [here](#) and [here](#).

amended rule requires a discussion of material matters of liquidity, capital resources, and financial condition as they relate to off-balance sheet arrangements to be incorporated into the broader discussion of liquidity and capital resources. Additionally, the amendments clarify, among other things, that the liquidity and capital resources disclosures must analyze material cash requirements from known contractual and other obligations, which may include, for example, lease obligations, purchase obligations, or other liabilities reflected on the company's balance sheet. While the spirit behind the revised rules is that companies provide a more holistic, integrated description of their liquidity and capital resources, the practical result may be that investors get less granular quantitative disclosures in some areas.

Additionally, many companies favor principles-based disclosure rules because they permit diverse companies and industries to tailor their disclosures to their specific facts and circumstances, but a common criticism of the principles-based approach is that it results in disclosures that are less comparable across individual companies and industries. The MD&A amendments will likely result in disclosures that are more individually tailored and consequently less easily comparable.

The SEC Staff has historically been very focused on MD&A disclosures, and this will continue to be the case as the new rules take effect. In light of the dissent by Commissioners Lee and Crenshaw, the forthcoming changes to SEC leadership may result in an SEC that views these amendments more critically, particularly to the extent that they result in less detailed disclosure of material factors. Consequently, companies should ensure that they adhere to the spirit of the revised rules and provide as much quantitative and narrative disclosure as they deem necessary to give their investors an accurate, management's-eye view of the material factors relevant to an assessment of their financial condition and results of operations, including an evaluation of the amounts and certainty of cash flows from operations and from outside sources.

The amendments will take effect 30 days after publication in the *Federal Register*. Companies must comply with the final rules beginning with the first fiscal year ending on or after the date that is 210 days after publication in the *Federal Register* (the mandatory compliance date). Therefore, calendar-year companies will first need to comply with the amendments in their 2021 Form 10-Ks filed in early 2022. Companies must comply with the amendments for registration statements if a registration statement on its initial filing date is required to contain financial statements for a period on or after the mandatory compliance date. Companies may voluntarily comply with the final amendments after their effective date but before they are required to comply provided that they provide disclosure responsive to an amended item in its entirety. Accordingly, companies should consider the final amendments when preparing their upcoming Form 10-K and Form 20-F filings.⁴

The most significant amendments are summarized below.

Regulation S-K Disclosure Requirement	Summary of Final Amendments and Rationale
Selected Financial Data Item 301 Eliminated	<p>Item 301 currently requires companies to furnish selected financial data in comparative tabular form for each of the company's last five fiscal years and any additional fiscal years necessary to keep the information from being misleading. The purpose of the disclosure is to provide in a convenient format selected financial data that highlights significant trends in the company's financial condition and results of operations over time.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Eliminate Item 301 and no longer require tabular disclosure of five years of selected financial data.

⁴ While the rule amendments refer primarily to the rules governing U.S. domestic issuers, the SEC adopted certain parallel amendments to the financial disclosure requirements applicable to foreign private issuers, including to Forms 20-F and 40-F. See Section II.D.1 of the adopting release.

	<p>Rationale:</p> <ul style="list-style-type: none"> • The financial data currently required by Item 301 can be accessed and compiled through prior filings readily available on EDGAR. • The original purpose of Item 301 has been supplanted by Item 303's requirement to provide a discussion and analysis of material trends in MD&A. <p>Guidance:</p> <ul style="list-style-type: none"> • The SEC reiterated its prior guidance, including in its 2003 MD&A Interpretive Release, emphasizing the importance of material trend disclosure. In line with that guidance, notwithstanding the amendments to eliminate Item 301, the SEC encourages companies to consider: <ul style="list-style-type: none"> ○ Whether trend information for periods earlier than those presented in the financial statements may be necessary as part of MD&A's objective to "provide material information relevant to an assessment of the financial condition and results of operations." ○ Whether presenting relevant financial or other information in a table as part of an introductory or overview section, including to demonstrate material trends, may help investors understand the MD&A.
<p>Supplementary Financial Data <i>Item 302(a)</i></p>	<p>Item 302(a) currently requires companies to disclose two years of selected quarterly financial data of specified operating results and variances in these results from amounts previously reported on a Form 10-Q. The purpose of the disclosure is to help investors understand the pattern of corporate activities throughout a fiscal period by disclosing trends over quarterly periods to reflect seasonal patterns.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Replace the requirement to provide two years of tabular selected quarterly financial data with a new principles-based requirement to disclose material retrospective changes. • Require disclosure only when there are one or more retrospective changes that pertain to the income statements for any of the quarters within the two most recent fiscal years and any subsequent interim period for which financial statements are included or required to be required (the look-back period) that are material, either individually or in the aggregate. <p><u>Examples:</u> The SEC provided a non-exhaustive list of examples of retrospective changes that may, if material, require disclosure including: (1) correction of an error; (2) disposition of a business that is accounted for as discontinued operations; (3) a reorganization of entities under common control; and (4) a change in accounting principle (depending on the circumstances).</p> <ul style="list-style-type: none"> • Require disclosure explaining the reasons for material retrospective changes and providing, for each affected quarterly period and the fourth quarter in the affected year, summarized financial information related to the income statements and earnings per share reflecting the changes. Depending on the facts and circumstances, disclosure may be required only for a single quarter or for multiple quarters during the relevant look-back period. • Amend the definition of "summarized financial information" in Rule 1-02(bb)(1) of Regulation S-X to clarify that the disclosure of summary

	<p>financial information may vary to conform to the nature of the company's business. The SEC also linked amended Rule 1-02(b)(1)(ii) to amended Item 302(a) to provide companies flexibility in the line items presented.</p> <ul style="list-style-type: none"> Require a newly public company to provide Item 302(a) disclosure, if applicable, beginning in the first Form 10-K filing after its IPO. However, if a newly public company has a material retrospective change to its year-to-date interim period information in its IPO registration statement but has not yet disclosed that interim period information in quarterly increments, the SEC will not object if the quantitative Item 302(a) disclosure in the Form 10-K comprised information for the same interim period previously presented in the registration statement (rather than for each affected quarter during that time) and the fourth quarter in the affected year. <p>Rationale:</p> <ul style="list-style-type: none"> The financial data currently required by Item 302(a) (other than fourth quarter data) can be found in prior Form 10-Qs readily available on EDGAR. Fourth quarter financial information typically can be calculated from the Form 10-K and third quarter Form 10-Q, except, for example, in the case of a material retrospective change which is addressed by the amendments. MD&A requirements still elicit the required disclosure of variances between periods if material. The amendments will help highlight material retrospective changes and help investors understand the reasons for the changes and the related quantitative effects on affected quarters.
Management's Discussion & Analysis of Financial Condition and Results of Operations (MD&A) - Regulation S-K Item 303	
<p>Objective of MD&A New Item 303(a)</p>	<p>Item 303(a) currently requires companies to discuss their financial condition, changes in financial condition and results of operations for full fiscal years. The discussion must address liquidity, capital resources, results of operations, off-balance sheet arrangements, contractual obligations and any other information a company believes would be necessary to understand its financial condition, changes in financial condition and results of operations. Item 303(b) covers interim period disclosures and requires companies to discuss material changes in the items listed in Item 303(a) other than the impact of inflation and changing prices on operations and tabular disclosure of contractual obligations.</p> <p>Currently Instructions 1, 2 and 3 to Item 303(a) address the objectives of MD&A, which are for companies to provide disclosure of specified material information to enable a reader to assess a company's financial condition and results of operation.</p> <p>Under current Item 303(a), where a discussion of segment information and/or of other subdivisions (e.g., geographic areas) of the company's business would be appropriate to an understanding of the business, the discussion should focus on each relevant, reportable segment and/or other subdivision of the business and on the company as a whole.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> Establish a new paragraph 303(a) that incorporates much of the substance of Instructions 1, 2 and 3 (but with certain revisions) to emphasize the objective of MD&A at the outset. Amended Item 303(a) will require disclosure of:

	<ul style="list-style-type: none"> ○ Material information relevant to an assessment of the company's financial condition and results of operations, including an evaluation of the amounts and certainty of cash flows from operations and from outside sources. ○ Material events and uncertainties known to management that are reasonably likely to cause reported financial information not to be indicative of future operating results or of future financial condition. This includes descriptions and amounts of matters that have had a material impact on reported operations as well as matters that are reasonably likely, based on management's assessment, to have a material impact on future operations. ○ The material financial and statistical data that the company believes will enhance a reader's understanding of the company's financial condition, cash flows and other changes in financial condition, and results of operations. The SEC added the explicit reference to cash flows as part of MD&A's objective in the final amendments in response to a suggestion from a commenter. <ul style="list-style-type: none"> • Incorporate guidance from the SEC's 2003 MD&A Interpretive Release by adding a statement in new Item 303(a) that disclosure that meets the requirements of the item is expected to better allow investors to view the company from management's perspective. • Add product lines as an example of a subdivision of a company's business (along with geographic areas) that should be discussed when the company believes necessary to understand its business. • Renumber current Item 303(a) as Item 303(b). <p>Rationale:</p> <ul style="list-style-type: none"> • To remind companies as they prepare their MD&A that the goal is to provide an analysis that encompasses short term results as well as future prospects. • To emphasize a principles-based approach to MD&A to elicit more tailored and informative disclosure that would enable investors to better understand the company's business through the eyes of management. • To clarify the types of subdivisions of a company's business that may require separate disclosure.
<p>Liquidity and Capital Resources</p> <p><i>Current Item 303(a)(1) and (2)</i></p> <p><i>Amended Item 303(b)(1)</i></p>	<p>Item 303(a)(2) currently requires a company to discuss its material commitments for capital expenditures as of the end of the latest fiscal period, and to indicate the general purpose of such commitments and the anticipated sources of funds needed to fulfill such commitments.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Expand this item to specifically require disclosure of known material cash requirements, including but not limited to commitments for capital expenditures. <p><u>Examples:</u> Funds necessary to maintain current operations, complete projects underway and achieve stated objectives or plans; or commitments for capital or other expenditures.</p>

	<p>Rationale:</p> <ul style="list-style-type: none"> • To codify guidance from the SEC’s 2003 MD&A Interpretive Release to elicit more informative disclosure about a company’s ability to meet its material cash requirements. • The current disclosure requirement generally relates to physical assets, which the SEC acknowledges may not fully reflect market developments since the rule was adopted in 1980. The final amendment will account for expenditures and cash commitments that are not capital investments in property, plant and equipment but relate to a company’s key resources such as human capital or intellectual property. • To enhance the discussion of capital resources and complement the elimination of the contractual obligations table.
<p>Results of Operations – Known Trends or Uncertainties</p> <p><i>Current Item 303(a)(3)(ii)</i></p> <p><i>Amended Item 303(b)(2)(ii)</i></p>	<p>Item 303(a)(3)(ii) currently requires a company to describe any known trends or uncertainties that have had or that the company reasonably expects will have a material impact (favorable or unfavorable) on net sales or revenues or income from continuing operations. Furthermore, if a company knows of events that will cause a material change in the relationship between costs and revenues, it must disclose that change in the relationship.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • If the company knows of events that are <i>reasonably likely</i> to cause (as opposed to <i>will cause</i>) a material change in the relationship between costs and revenues, such as known <i>or reasonably likely</i> future increases in costs of labor or materials or price increases or inventory adjustments, require disclosure of the reasonably likely change in the relationship. • Clarify that the “reasonably likely” threshold applies throughout Item 303. <p>Rationale:</p> <ul style="list-style-type: none"> • To conform the language in this disclosure item to the “reasonably likely” threshold imposed in other MD&A disclosure requirements and the SEC’s interpretive guidance on forward-looking statements and reflective of current practice. <p>Guidance:</p> <ul style="list-style-type: none"> • The SEC clarified in the adopting release how companies should analyze and disclose information regarding known trends, commitments or uncertainties. The “reasonably likely” threshold requires a thoughtful analysis that applies an objective assessment of the likelihood that an event will occur balanced with a materiality analysis regarding the need for disclosure about the event. <ul style="list-style-type: none"> ○ Known trends, demands, commitments, events, or uncertainties that are not remote, or where management cannot make an assessment as to the likelihood that they will come to fruition, and that would be reasonably likely to have a material effect on the company’s future results or financial condition were they to come to fruition, should be disclosed if a reasonable investor would consider omission of the information as significantly altering the mix of information made available in the company’s disclosures. ○ Management should make this determination objectively with the goal of helping investors clearly understand the potential material

	consequences of the known forward-looking statements or uncertainties.
Results of Operations – Net Sales and Revenues, Line Item Changes <i>Current Item 303(a)(3)(iii) and Instruction 4 to Item 303(a)</i> <i>Amended Item 303(b) and 303(b)(2)(iii)</i>	<p>Item 303(a)(3)(iii) currently requires management to discuss certain factors, such as changes in prices or volume, that led to certain material increases in net sales or revenues. Instruction 4 to Item 303(a) currently requires a description of the causes of material changes from year-to-year in line items of the financial statements to the extent necessary to an understanding of the company's business as a whole.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Require disclosure of <i>material changes</i> (rather than <i>material increases</i> as currently required) in net sales or revenue. • Where there are material changes in a line item from period to period, even where such changes within a line item offset one another, require a narrative discussion in MD&A of the <i>underlying reasons for</i> (rather than only the <i>causes of</i>) the material changes in quantitative and qualitative terms. • Incorporate a portion of current Instruction 4 to Item 303(a) into amended Item 303(b) and delete the language in the instruction requiring a description of the reasons for material changes to the extent necessary to an understanding of the company's business as a whole. <p>Rationale:</p> <ul style="list-style-type: none"> • To codify existing SEC guidance that clarifies that MD&A disclosure of results of operations should describe increases and decreases in any line item, including net sales or revenues, from period to period. • To encourage companies to provide a more nuanced, informative discussion of what may be contributing to material changes in line items rather than simply reciting the amounts of year-to-year changes. • To delete duplicative language. <p>Guidance:</p> <ul style="list-style-type: none"> • Where it is challenging to isolate and quantify reasons for specific material changes because they are interrelated, the SEC encourages companies to acknowledge this fact and explain the interrelated circumstances to the extent possible.
Results of Operations – Inflation and Price Changes <i>Current Item 303(a)(3)(iv) and Instructions 8 and 9 to Item 303(a)</i> <i>Eliminated</i>	<p>Item 303(a)(3)(iv) and Instruction 8 to Item 303(a) generally require companies, either for the three most recent fiscal years or for those fiscal years in which the company has been engaged in business, whichever period is shorter, to discuss the impact of inflation and price changes on their net sales, revenues and income from continuing operations where material.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Eliminate Item 303(a)(3)(iv) and related Instructions 8 and 9 to Item 303(a). <p>Rationale:</p> <ul style="list-style-type: none"> • To reduce immaterial disclosure by eliminating the specific references to the impact of inflation and price changes which may not be material to most companies.

	<ul style="list-style-type: none"> The amendment should not result in a loss of material disclosure because a discussion of the impact of inflation or changing prices will still be required if part of a known trend or uncertainty that has had, or is reasonably likely to have, a material favorable or unfavorable impact on net sales, revenues or income from continuing operations. Disclosure about inflation and changing prices may also be implicated by amended Item 303(b)'s requirement to describe the underlying reasons for material changes in line items from period to period.
Off-Balance Sheet Arrangements Current Item 303(a)(4) New Instruction 8 to Item 303(b)	<p>Item 303(a)(4) currently requires companies to disclose, in a separately-captioned section, off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> No longer require a separately-captioned section for off-balance sheet arrangements in MD&A. Replace current Item 303(a)(4) with a new principles-based instruction requiring companies to discuss commitments or obligations, including contingent obligations, arising from arrangements with unconsolidated entities or persons that have, or are reasonably likely to have, a material current or future effect on the company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, cash requirements or capital resources even when the arrangement results in no obligation being reported in the company's consolidated balance sheets. <p>Rationale:</p> <ul style="list-style-type: none"> To prompt companies to consider and integrate disclosure of material off-balance sheet arrangements within the context of their broader MD&A disclosures in furtherance of the principles-based nature of MD&A and with the goal of eliciting more meaningful discussion of the impact of these arrangements. By no longer requiring this disclosure in a separately-captioned section, the SEC expects companies to incorporate the discussion of off-balance sheet arrangements into its broader discussion of liquidity and capital resources, but noted in the adopting release that companies maintain the discretion to separately highlight particularly material information about such arrangements if they prefer. To reduce boilerplate disclosure that duplicates information in the financial statements or cross-references to the financial statements without providing sufficient context.
Tabular Disclosure of Contractual Obligations Current Item 303(a)(5) Eliminated; incorporated into Amended Item 303(b)(1) and	<p>Item 303(a)(5) currently requires companies (other than smaller reporting companies) to disclose in tabular format their known contractual obligations that fall within five prescribed categories. This disclosure requirement does not contain a materiality threshold.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> Eliminate current Item 303(a)(5) and no longer require a contractual obligations table in MD&A; instead require a discussion of material contractual obligations through an enhanced principles-based liquidity and capital resources requirement focused on material short- and long-term cash requirements from known contractual and other obligations.

<p>Instruction 4 to Item 303(b)</p>	<ul style="list-style-type: none"> • Introduce a new Item 303(b)(1) setting forth the overarching requirements for liquidity and capital resources disclosure. • Incorporate portions of current Instruction 5 to Item 303(a) into amended Item 303(b)(1) which defines “liquidity” as the ability to generate adequate amounts of cash to meet the needs for cash, to clarify its general applicability to the liquidity and capital resources requirements. • Codify prior SEC guidance specifying that short-term liquidity and capital resources covers cash needs up to 12 months into the future while long-term liquidity and capital resources covers items beyond 12 months. • Require the discussion on a short- and long-term basis. • Require the discussion to analyze material cash requirements from known contractual or other obligations and such disclosures to specify the type of obligation and the relevant time period for the related cash requirements. <p><u>Example:</u> If a financial obligation is reasonably likely to have a material effect on liquidity and capital resources over a number of subsequent periods or sometime within a range of future periods, a company must identify and discuss this obligation and related effects.</p> <ul style="list-style-type: none"> • Add an instruction stating that the discussion of material cash requirements from known contractual obligations may include, for example, lease obligations, purchase obligations or other liabilities reflected on the company’s balance sheet. However, unlike the current requirement, the final amendments do not prescribe specific categories of contractual obligations and instead allow companies flexibility to determine what may be material and required to be disclosed. • Add an instruction stating that, in line with prior SEC guidance, the analysis provided in response to amended Item 303(b) should be in a format that facilitates easy understanding and is not duplicative. In a footnote to the adopting release, the SEC noted that, notwithstanding the amendments, companies still have the discretion to either combine or separate the discussions of liquidity and capital resources. <p>Rationale:</p> <ul style="list-style-type: none"> • To promote the principles-based nature of MD&A and reduce redundant disclosures because most of the information disclosed pursuant to Item 303(a)(5) already appears in the notes to the financial statements pursuant to GAAP requirements. • To improve the transparency of a company’s short- and long-term liquidity and capital resources needs and demands while reducing the compliance burden on companies.
<p>Comparisons of Interim Periods</p> <p>Current Item 303(b)</p> <p>Amended Item 303(c)</p>	<p>Item 303(b) currently requires companies to provide MD&A disclosure for interim periods that enables market participants to assess material changes in financial condition and results of operations between certain specified periods.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Allow companies more flexibility when comparing interim periods. Companies will be permitted to compare their most recently completed quarter to either the corresponding quarter of the prior year (as currently required) or the immediately preceding quarter.⁵

⁵ An amendment will afford companies subject to Rule 3-03(b) of Regulation S-X the same flexibility.

	<ul style="list-style-type: none"> • If a company elects to discuss changes from the immediately preceding quarter, will require it to provide summary financial information that is the subject of the discussion for that quarter or identify the prior EDGAR filing that presents such information so investors have ready access to the relevant prior quarter financial information. • If a company changes the comparison from the prior interim period comparison, will require it to explain the reason for the change and present both comparisons in the filing where the change is announced. <u>Example:</u> If a company in its Q3 2020 Form 10-Q chooses to compare its results to the preceding quarter (Q2 2020) after the company had compared such quarter to the corresponding quarter of the previous year (Q2 2019) in its earlier report, the company would be required to present both comparisons (i.e., versus Q2 2020 and Q3 2019) in that Q3 2020 Form 10-Q and explain the reasons for the change in comparison. • Renumber current Item 303(b) as Item 303(c) and delete certain instructions in current Item 303(b) and provides cross-references to similar instructions in Item 303(b). <p>Rationale:</p> <ul style="list-style-type: none"> • To give companies more flexibility regarding the interim period comparisons they discuss in MD&A to encourage them to provide analysis that is better tailored to their business cycles. • To give investors greater insights into company decision making.
<p>Critical Accounting Estimates <i>New Item 303(b)(3)</i></p>	<p>Item 303(a) does not currently require companies to disclose critical accounting estimates. However, in its 2003 MD&A Interpretive Release, the SEC stated that when preparing MD&A disclosure, companies should consider whether they have made accounting estimates or assumptions where the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and the impact of the estimates and assumptions on financial condition or operating performance is material. The guidance further stated that if critical accounting estimates or assumptions are identified, a company should analyze, to the extent material, factors such as how it arrived at the estimate, how accurate the estimate/assumption has been in the past, how much the estimate/assumption has changed in the past, and whether the estimate/assumption is reasonably likely to change in the future. Any disclosure should supplement (rather than duplicate) the description of accounting policies disclosed in the notes to the financial statements, and provide greater insight into the quality and variability of information regarding financial condition and operating performance.</p> <p>Final amendments:</p> <ul style="list-style-type: none"> • Clarify and codify the SEC's prior guidance by explicitly requiring disclosure of critical accounting estimates in MD&A. • Define a critical accounting estimate as an estimate made in accordance with generally accepted accounting principles that involves a significant level of estimation uncertainty and has had or is reasonably likely to have a material impact on the company's financial condition or results of operations. • Require companies to provide qualitative and quantitative information necessary to understand the estimation uncertainty and the impact the critical accounting estimate has had or is reasonably likely to have on

	<p>financial condition of results of operations to the extent the information is material and reasonably available. The SEC noted in the adopting release its view that disclosure that is impracticable to provide would not be “reasonably available.”</p> <ul style="list-style-type: none"> For each critical accounting estimate, require companies to disclose why the estimate is subject to uncertainty and, to the extent the information is material and reasonably available, how much each estimate and/or assumption has changed over a relevant period, and the sensitivity of the reported amount to the material methods, assumptions and estimates underlying its calculation. <p>The SEC declined to specify the period over which a company should discuss the changes in the estimate or assumption, instead giving companies flexibility to make that determination consistent with the principles-based nature of MD&A. The SEC explained that it may be appropriate to provide disclosure only as of the balance sheet date for certain estimates or assumptions, but over the number of years presented in the financial statements for others.</p> <ul style="list-style-type: none"> Add an instruction specifying that the disclosure of critical accounting estimates should be in a format that facilitates easy understanding and should supplement, but not duplicate, the description of accounting policies or other disclosures in the notes to the financial statements. <p>Rationale:</p> <ul style="list-style-type: none"> To provide more clarity to the disclosure requirement to: <ul style="list-style-type: none"> Elicit more informative disclosure from companies about their estimates and assumptions to give investors greater insight into potential risks or uncertainties. Promote more consistent disclosure practices providing investors with increased comparability across companies. To reduce duplicative disclosures as many companies merely repeat the discussion of significant accounting policies from the notes to the financial statements in their MD&A.
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