

November 2018

## Accounting & Auditing Update

# SEC Updates: Disclosure Requirements and Definition of Smaller Reporting Companies

By Jonathan Zuckerman, CPA, Partner and John M. Haslbauer, CPA, Partner

The SEC recently issued two promulgations: (1) a rule change amending certain disclosure requirements, and (2) an amendment to the definition of a smaller reporting company. We have summarized the information contained in each.

### SEC Issues Final Rules on Disclosure Update and Simplification

In August 2018, the SEC issued a final rule to amend certain disclosures that have become redundant, overlapping, outdated or superseded in light of other SEC disclosure requirements, accounting standards updates to U.S. GAAP or changes in the information technology environment. The SEC indicated that the amendments are “intended to facilitate the disclosure of information to investors and simplify compliance without significantly altering the total mix of information provided to investors.”

The rule changes are part of the SEC’s ongoing disclosure effectiveness initiative and included as part of the Fixing America’s Surface Transportation (FAST) Act. The final rule became effective November 5, 2018.

The most significant changes in the final rule include the following:

- Statement of stockholders’ equity – extends to interim periods the annual disclosure requirement of presenting changes in stockholders’ equity and the amount of dividends per share for each class of shares for current and comparative year-to-date interim periods.
- Dividend disclosure – removes requirement to present dividends per share on the face of the income statement for interim periods (formerly reported within the statement of stockholders’ equity).
- Removes requirement for disclosure of historical and pro forma ratio of earnings to fixed charges.
- In the *Description of Business* section, eliminates the requirement to include disclosures of segment reporting by geographical area and financial information, restatement of prior periods when reportable segments change and a discussion of interim segment information that may not be indicative of current or future operations. The rationale is that the MD & A and U.S. GAAP requires similar disclosures.
- Modification of market price information to only include the ticker symbol.

The rule changes affect U.S. issuers, foreign private issuers, investment advisors, Regulation A issuers, investment companies, broker-dealers and nationally recognized statistical rating organizations. For more information, please [visit here](#).

### SEC Amends Definition of Smaller Reporting Companies

Also in August 2018, the SEC amended the definition of a smaller reporting company. It was made effective on September 10, 2018.

The definition changed the threshold for qualifying smaller reporting company criteria to either:

- Public float of less than \$250 million, **or**
- Annual revenues of less than \$100 million and public float of less than \$700 million (including non-public float).

It is noteworthy that the SEC did not change the threshold for accelerated filer status at \$75 million. Therefore, under the amended rules, smaller reporting companies with public float between \$75 million and \$250 million will be subject to accelerated filer requirements in their periodic filings as well as the requirement to obtain an annual audit of internal control over financial reporting. The SEC is considering amending the definition of an accelerated filer and could reduce the number of registrants subject to an audit of internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act.

Other noteworthy items in the rule change include:

- Initial qualification test for existing registrants who are accelerated filers who before the rule were not considered smaller reporting companies.
- Changes in measurements for filing status including timing and thresholds for the annual determination test.
- Scaled disclosure requirements for smaller reporting companies including form and content of financial statements and other financial related disclosures in annual and interim reporting. Such items include the omission of financial statement schedules, five-year selected financial data table, contractual obligations table and certain market risk disclosures.
- Financial statements for acquired businesses.
- Reduced disclosure of description of business, executive compensation and corporate governance.
- Enhanced disclosures for transactions with related persons, promoters and certain controlled persons.

The SEC issued *Amendments to the Smaller Reporting Company Definition – A Small Entity Compliance Guide for Issuers* can be found on the [SEC website](#).

## Contact Us

If you have any questions about these new rules applicable to SEC-regulated companies — or any other accounting and auditing matters — please contact either of the following partners or the partner in charge of your account:

Jonathan Zuckerman, CPA  
Partner  
[JZuckerman@pkfod.com](mailto:JZuckerman@pkfod.com) | 646.699.2842

John M. Haslbauer, CPA  
Partner  
[JHaslbauer@pkfod.com](mailto:JHaslbauer@pkfod.com) | 646.699.2838

## About PKF O'Connor Davies

PKF O'Connor Davies, LLP is a full-service certified public accounting and advisory firm with a long history of serving clients both domestically and internationally. With roots tracing to 1891, nine offices in New York, New Jersey, Connecticut and Maryland, and more than 700 professionals, the Firm provides a complete range of accounting, auditing, tax and management advisory services. PKF O'Connor Davies is ranked 29th on *Accounting Today's* 2018 "Top 100 Firms" list and is recognized as one of the "Top 10 Fastest-Growing Firms." PKF O'Connor Davies is also recognized as a "Leader in Audit and Accounting" and is ranked among the "Top Firms in the Mid-Atlantic," by *Accounting Today*. In 2018, PKF O'Connor Davies was named one of the 50 best accounting employers to work for in North America, by *Vault*.

PKF O'Connor Davies is the lead North American representative in PKF International, a global network of legally independent accounting and advisory firms located in over 400 locations, in 150 countries around the world.

Our Firm provides the information in this e-newsletter for general guidance only, and it does not constitute the provision of legal advice, tax advice, accounting services, or professional consulting of any kind.