

SEC Amends and Streamlines Regulation S-K Disclosures

On August 26, 2020, the SEC adopted amendments to the description of business, legal proceedings, and risk factor disclosure requirements of Regulation S-K, many of which have not been updated in over thirty years. The amendments include an increased emphasis on human capital resource disclosures, which can be an important driver of long-term value for many companies and industries. The new rules are substantially consistent with the proposed amendments from August 2019 with a few modifications and emphasize a more principles-based, registrant-specific approach to disclosures. The new requirements will be effective thirty days after their publication in the Federal Register.

Some of the key amendments are as follows:

Item 101 (Description of business)

- Require principles-based disclosure of the description of a registrant's business, and information considered material to understanding the general developments of its business;
- Introduce a materiality framework in lieu of the previously prescribed five-year timeframe approach to business disclosures;
- Permit registrants to provide only an update of the general development of the business that focuses on material developments in the reporting period with a hyperlink to a previously filed document that, together with the update, provides a full discussion of the general development of the business;
- Provide a non-exclusive list of disclosure topics that may need to be disclosed which are, in part, based on the existing disclosure topics, but:
 - Add a disclosure topic for human capital resources, including human capital measures or objectives that management focuses on in managing the business (to the extent they are material to understanding of the business as a whole); and
 - Expand the regulatory compliance disclosure requirement to cover all material government regulations, rather than solely environmental regulations.

Item 103 (Legal Proceedings)

- Permit the use of hyperlinks or cross-references to legal proceedings disclosure included elsewhere in the filing to avoid duplication (e.g., in the financial statement footnotes); and

- Revise the \$100,000 threshold for disclosure of certain governmental environmental proceedings to \$300,000. However, registrants are permitted to select a different threshold that results in the disclosure of material environmental proceedings as long as the threshold does not exceed the lesser of \$1 million or one percent of current assets.

Item 105 (Risk Factors)

- Require a summary risk factor disclosure of no more than 2 pages if the risk factor disclosures exceed 15 pages (a change intended to address the lengthy and generic nature of risk factor disclosures);
- Change the disclosure standard from the “most significant” factors to the “material” factors required to be disclosed; and
- Require risk factors to be organized under relevant headings with any risk factors that apply to an investment in securities to be disclosed at the end of the risk factor section under a separate caption.

In summary, these amendments seek to reduce the burden of certain disclosure requirements by permitting greater flexibility in disclosing information about a registrant’s business that is considered material to investors.

Centri Business Consulting provides the highest quality finance and accounting consulting services to its clients by being reliable and responsive to their needs. Centri provides companies with the expertise they need to meet their reporting demands. Centri specializes in financial reporting, internal controls, technical accounting research, valuation, and CFO advisory services for companies of various sizes and industries. From complex technical accounting transactions to monthly financial reporting, our professionals can offer any organization the specialized expertise and multilayered skill sets to ensure the project is completed timely and accurately.

For more information, please visit www.CentriConsulting.com