



March 26, 2026

By email: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: File No. CLL-15

Dear Office of the Secretary:

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of US public company auditors and in respect of matters related to the audits of public companies. The CAQ promotes high-quality performance by US public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, US public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness to dynamic market conditions of US public company auditors and audits. This letter represents the observations of the CAQ based upon feedback and discussions with certain of our member firms, but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

In his January 13, 2026 [Statement on Reforming Regulation S-K](#) (Statement), Chairman Atkins noted that he has instructed the Division of Corporation Finance to engage in a comprehensive review of Regulation S-K. He also encouraged members of the public to provide their views on how the Commission can amend the requirements in Regulation S-K to focus on eliciting disclosure of material information and avoid compelling the disclosure of immaterial information. Division of Corporation Finance Director Jim Moloney reiterated this request in a [Statement](#) on February 13, 2026. In the Statement, Mr. Moloney also encouraged the public to submit targeted, concrete recommendations relating to Regulation S-X. The CAQ strongly supports the Commission's efforts and is pleased to respond to these requests.

Auditors play an important role in enhancing the quality, rigor, and reliability of financial information disclosed in Commission filings, and the profession has a strong interest in the success of the staff's comprehensive review of Regulation S-K. This letter provides recommendations through the lens of the public company audit profession. While we encourage the Commission to consider these recommendations, we also encourage the Commission to conduct further outreach and engagement with the legal community, investors, and other users of Commission filings to understand their views on how business and financial disclosures can be improved. Since not all investors will participate in the comment letter process, we encourage the Commission to solicit feedback from investors using a broad range of methods, including in-person forums and roundtables.



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Our comments center around the following topical areas:

I. Principles-Based Disclosure Framework with Materiality as a Guiding Principle

In his Statement, Chairman Atkins referred to Justice Thurgood Marshall’s assertion that burying shareholders in an avalanche of immaterial information is a result that neither protects investors nor facilitates capital formation.¹ We believe that a principles-based framework that emphasizes materiality may reduce disclosure overload and the burdens for companies wishing to enter or remain in the capital markets. A principles-based approach grounded in materiality would provide registrants with flexibility to tailor their disclosures to provide relevant information regarding the facts and circumstances of their business or industry, enabling them to more effectively communicate material information to investors that is focused, relevant, and useful.

Examples of actions the Commission could take to effectuate such an approach include eliminating the bright-line thresholds for:

- Disclosing related-party transactions exceeding \$120,000 (Item 404(a));
- Disclosing environmental legal proceedings to which a governmental authority is a party if the registrant reasonably believes that the monetary sanctions involved will equal or exceed \$300,000 (Item 103(c)(3)(iii)); and
- Disclosing legal matters exceeding 10% of current assets (Item 103(b)(2)).

For many large companies, these thresholds may necessitate disclosure of items that a reasonable investor could consider immaterial to their decision making.

We also believe that the Commission should consider embedding objectives that articulate the intent of the Item requirements in Regulation S-K to better enable preparers to assess whether their disclosures are sufficient, material and meaningful to investors. The objectives should focus on information that is relevant to a user’s understanding of the company’s risks and performance. Alternatively, the Commission may wish to consider adopting an overarching, principles-based objective for Regulation S-K requirements. A high-level approach would avoid unnecessary repetition and align with the longstanding materiality framework that is already embedded in the federal securities laws. Emphasizing a principles-based objective would be consistent with regulatory intent and stakeholder feedback and would mirror prior enhancements to MD&A that focus on the overall purpose of disclosures rather than prescriptive, item-specific objectives.

II. Elimination of Disclosure Requirements that are Overlapping or Duplicative

In recent years, the SEC has adopted various final rules, implementing many of the recommendations in our [comment letter](#) on the Commission’s 2016 Concept Release, *Business and Financial Disclosure Required by Regulation S-K* (Concept Release). These rules included provisions 1) eliminating redundant/irrelevant financial data tables, 2) enhancing disclosure requirements under Items 101, 103, and 105, and 3) streamlining MD&A requirements, each of which has markedly improved the

¹ TSC Industries, Inc. v. Northway, Inc., 426 U.S. 438, 448-449 (1976).



effectiveness of the Commission’s disclosure framework by eliminating areas of duplicative and/or irrelevant disclosure. An example of a further action the Commission could take to further eliminate overlapping, duplicative or less relevant disclosures includes:

- **Preferability Letters (Item 601(b)(18))**

The SEC amended Form 10-Q in 1975 to require an accountant’s letter stating whether a change in accounting principle is, in the accountant’s judgment, preferable. At that time, an auditor’s review of a registrant’s interim period financial statements included in Form 10-Q was not required. Accordingly, the requirement to file a preferability letter in a Form 10-Q would presumably force registrants to involve their independent auditors when making voluntary changes in accounting principles during interim periods. However, in 2000, the SEC adopted rules requiring companies’ independent auditors to review companies’ financial information prior to filing their quarterly reports on Form 10-Q and thus, auditors are involved with changes in accounting principles when they are made in connection with these reviews. Moreover, there are accounting and auditing standards with respect to changes in accounting principles such as Accounting Standard Codification (“ASC”) 250, *Accounting Changes and Error Corrections*, and PCAOB AS 2820, *Evaluating Consistency of Financial Statements*. The requirement to determine that a change in accounting principle is preferable and to obtain a preferability letter from the registrant’s auditor overlaps with the U.S. GAAP requirement to establish preferability when changing an accounting principle (that is not in response to a newly issued accounting standard). We recommend the Commission evaluate whether the preferability letter requirement continues to be needed in light of subsequent developments/evolution and due to its overlapping objective with U.S. GAAP and PCAOB standards.

III. Modernization and Simplification of Existing Requirements

Much has happened in the regulatory and financial reporting landscape since Regulation S-K was issued in 1982. As part of its comprehensive review of Regulation S-K, we encourage the staff to continue its review of existing requirements with an eye toward identifying ways the disclosure process could be modernized and simplified. In this ongoing effort, we encourage the staff to seek input from investors and other users of Commission filings to identify disclosures that are outdated, overly complex or simply no longer useful. We also encourage the staff to seek input from preparers to identify ways to make the disclosure requirements less costly or burdensome.

Some examples of ways to modernize and simplify existing standards include:

- **Simplification of Filer Status Categories**

Several sections of Regulation S-K include references to an issuer’s filer status to set forth the issuer’s corresponding disclosure requirements. This reflects the scaled disclosure regime that has become a patchwork of filer statuses over the past several decades. As part of any efforts to reform Regulation S-K, consideration should be given to the current approach to filer status and whether streamlining reforms should be undertaken in that respect as well. Operationally, we could see two approaches – (i) effectuating practical change to scaled disclosure requirements via specific Regulation S-K revisions or (ii) revising the filer statuses first, with follow-on revisions, as



needed, to Regulation S-K coming thereafter. In this letter, we do not endeavor to address potential revisions to filer status or scaled disclosures, but we acknowledge the relevance of this consideration to any broader initiative to reform Regulation S-K.

- **Cybersecurity governance disclosures in annual reports on Form 10-K (Form 10-K instructions and Item 106(c) of Regulation S-K)**

Cybersecurity governance disclosures pursuant to Item 106(c) are required to be disclosed in Part I, Item 1C of Form 10-K, while all other governance disclosures are required to be disclosed in Part III of Form 10-K (and are often incorporated by reference into the Form 10-K from a registrant's proxy filed after the Form 10-K). The location of the cybersecurity governance disclosures is inconsistent with the other governance disclosures and it is not clear why they would not be included in Part III of Form 10-K (which may be filed later, within 120 days of year-end). The Commission may consider whether to permit the incorporation by reference of the cybersecurity governance disclosures from Part III of Form 10-K in lieu of disclosure in Part I.

- **Technical Corrections and Amendments to SEC Release No. 33-10890 (Item 302(a)) of Regulation S-K**

We have identified numerous specific technical corrections and amendments to Item 302(a) that would result in a more streamlined approach to disclosures of supplementary financial information. Our suggestions are included in Exhibit A.

IV. Regulation S-X Considerations

In response to the request from Jim Moloney for recommendations regarding Regulation S-X, we share a few suggestions that immediately come to mind, including those relating to:

- **Financial information for equity investees (Rules 3-09 and 4-08(g) of Regulation S-X)**

In 2015, the SEC issued a request for comment on the effectiveness of financial disclosures about entities other than the registrant, which focused on the reporting requirements of Rules 3-05, 3-09, 3-10 and 3-16 of Regulation S-X. While amendments were subsequently made to these rules, Rule 3-09 was not specifically addressed (other than indirectly via the impacts to Rule 1-02(w) as it relates to assessing significance). Rule 3-09 requires registrants, other than smaller reporting Companies (SRCs), to provide separate financial statements for equity method investees that are more than 20% significant. Rule 4-08(g) requires non-SRCs to provide summarized financial information when such investees exceed 10% significance individually or in the aggregate. SRCs are not required to provide separate financial statements of significant equity method investees and the significance threshold for providing summarized financial information (pursuant to Rule 4-08(g)) for such investees is 20% rather than 10%.

In comparison, ASC 323-10-50-3(c) states, "If investments in common stock of corporate joint ventures or other investments accounted for under the equity method are, in the aggregate, material in relation to the financial position or results of operations of an investor, it may be necessary for summarized information as to assets, liabilities, and results of operations of the



investees to be disclosed in the notes or in separate statements, either individually or in groups, as appropriate.”

The SEC’s requirements in Rules 3-09 and 4-08(g) effectively convert the principles-based GAAP requirements to a rules-based structure with bright-line significance thresholds. Initial and ongoing compliance with these rules-based requirements can be costly and time-consuming. We believe the SEC should consider whether the SEC’s overlapping requirements are necessary and, if not, whether those requirements can be eliminated. If the SEC staff concludes that the requirements in Rules 3-09 and 4-08(g) are necessary, we recommend considering the following changes:

- Simplifying or reducing the disclosure requirements in Rules 3-09 and 4-08(g), including aligning or raising the bright-line thresholds that determine significance (or establishing a tiered system that contemplates audited or unaudited financial statements at different levels of significance) such that they are consistent across the rules.
 - Establishing separate thresholds for investees that are significant individually and in the aggregate under Rule 4-08(g).
 - Eliminating the requirement to present in the separate, unaudited financial statements for any year(s) in which the investee is not significant.
 - Allowing issuers to provide separate financial statements for the entire year in the year of acquisition without staff intervention.
 - Eliminating the requirement to provide separate financial statements for the year of disposal without staff intervention.
 - Excluding equity method investees accounted for at fair value from the requirement to provide separate financial statements pursuant to Rule 3-09 (on the basis that existing fair value disclosure requirements, which are considered sufficient for other financial instruments measured at fair value, are sufficiently robust to provide information that investors would need to facilitate their decision-making processes).
- **Application of International Standards on Auditing for audits of financial statements required by Rule 3-05 and 3-09 of Regulation S-X (Rule 1-02(d) of Regulation S-X)**

In accordance with Rule 1-02(d), for purposes of financial statements filed with the Commission, an audit is defined as an examination of the financial statements in accordance with either PCAOB standards (issuers) or AICPA standards (generally, non-issuers).

In territories outside of the United States, financial statements are most commonly prepared in accordance with IFRS[®] Accounting Standards as issued by the International Accounting Standards Board (IFRS-IASB) and are audited in accordance with International Standards on Auditing (ISAs). Accordingly, when financial statements of foreign businesses are required to be filed pursuant to Rule 3-05 or Rule 3-09 of Regulation S-X, there is ordinarily a need to devote incremental resources (time, money or both) to reaudit the acquiree’s financial statements under the professional standards currently accepted

In Release No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, the SEC stated:



Finally, we are not adopting revisions to accept ISAs in audit reports on Rule 3-05 Financial Statements of foreign businesses as suggested by some commenters. Use of ISAs in Commission filings would involve broader considerations than Rule 3-05 Financial Statements, potentially including the appropriateness of their use for audits of foreign private issuer financial statements. We believe such an approach would require a thorough evaluation of the appropriateness of the use of ISAs and is beyond the scope of these amendments.

Requiring the use of AICPA standards for financial statements under Rules 3-05 and 3-09 may impose unnecessary burdens in cross-border transactions, especially in cases where the financial statements have already been audited under ISAs. “Uplifting” audits to meet AICPA standards frequently involves incremental audit procedures, extended timelines, and additional costs without materially enhancing the quality or reliability of the financial information. Uplifting such audits may also create bottlenecks in the registration process for the acquirer. Moreover, as it relates to Rule 3-05, the cost-benefit associated with the uplift may be even more unbalanced as pre-acquisition financial statements pursuant to Rule 3-05 are often presented once at the time of acquisition (and less commonly in subsequent registration statements). In extreme cases, this requirement may, and has, prevent(ed) deals from being completed.

While we acknowledge that a thorough evaluation of the quality of ISAs may be required prior to a proposal, we recommend the SEC staff consider permitting Rules 3-05, 3-09 and 3-14 financial statements for acquirees/investees that qualify as foreign businesses or that would qualify as Foreign Private Issuers (FPIs) if they were registrants to be audited in accordance with the ISAs.

- **Financial statement schedule requirements (Rule 5-04 and Article 12 of Regulation S-X)**

Rule 5-04 requires various financial statement schedules prescribed by Article 12. U.S. GAAP disclosure requirements have evolved over time, making some of the financial statement schedule requirements duplicative. Specifically:

- Schedule II – *Valuation and Qualifying Accounts* largely duplicates disclosures already required in the financial statements. For example:
 - ASC 326, *Financial Instruments – Credit Losses*, requires a roll-forward of the allowance for credit losses
 - ASC 606, *Revenue from Contracts with Customers*, requires disclosures related to variable consideration, including an explanation of significant changes in contract assets and liabilities
 - ASC 740, *Income Taxes*, requires disclosure related to changes in the income tax valuation allowance
- The utility of other financial statement schedules may have diminished over time, or they may not provide incremental material information. For example, the granular disclosures by property and mortgage loan required by Schedules III and IV may not offer investors useful information beyond what is already disclosed in the financial statements.

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- S-X Rules 5-04, 7-05 and 9-06 require parent-only financial statements (as prescribed in S-X Rule 12-04) when the restricted net assets of consolidated subsidiaries exceed 25% of consolidated net assets of the registrant at the most recent fiscal year-end. However, ASC 810-10-45-11 requires parent-only financial statements as a supplement to the consolidated financial statements if material. Oftentimes, the parent entity is merely a holding company with no significant assets other than investments in subsidiaries (with debt, in some cases). In addition, even when the parent company has standalone operations, its standalone financial statements do not include assets and liabilities of subsidiaries that are not subject to any restrictions on transfers as outlined in Rule 1-02(dd) and SAB Topic 6.K.2 and, accordingly, is providing users of the financial statements with an incomplete picture in any case.

Preparing parent-only financial statements requires incremental effort for issuers without much incremental value to investors. For example, if the restricted subsidiary has positive net assets, and the registrant has negative (or insignificant) consolidated net assets, the threshold to provide condensed financial information of the registrant can be met. This is true even when the restricted net assets are, or the subsidiary itself is, immaterial. This requirement creates additional burden on issuers.

In light of existing financial statement disclosure requirements, we recommend evaluating the ongoing utility of and need for financial statement schedule requirements.

In considering the removal of or amendments to the Regulation S-X requirements to present parent-only financial statements due to the overlapping U.S. GAAP requirement, the SEC could also evaluate whether

- Existing disclosures (Rule 4-08(e) of Regulation S-X) provide investors with the material information necessary to understand the nature and implications of restrictions on net assets,
 - Certain quantitative information from Schedule I could be incorporated into the disclosure requirements in Rule 4-08(e).
 - Parent-only financial information is useful to investors when the majority of operations are conducted by the registrant's subsidiaries
 - The 25% threshold should be adjusted to address unusual situations (for example, when the parent's net assets are negative or the net assets of the subsidiary are immaterial).
- **Other Footnote disclosures and presentation requirements (Regulation S-X Articles 4 and 5)**

We believe certain financial statement disclosure and presentation requirements within Articles 4 and 5 of Regulation S-X are not necessarily reflective of current transactions and could be modernized, or are duplicative with disclosure and presentation requirements within U.S. GAAP. For example:

- In addition to our observations on Rule 4-08(g) and its overlapping requirements with ASC 323, we believe Rule 4-08(h) should be eliminated or significantly modified due to the Financial Accounting Standards Board's (FASB's) adoption of Accounting Standards Update (ASU) 2023-09, *Improvements to Income Tax Disclosures*, which aligns with or exceeds the



requirements of Rule 4-08(h) by requiring detailed rate reconciliation and disaggregation of tax information.

- Rule 5-03(b)(1)(a) requires separate presentation of “(a) net sales of tangible products..., (b) operating revenues of public utilities or others, (b) income from rentals; (d) revenues from services; and (e) other revenues.” Depending on a registrant’s industry and the nature of their contracts with customers, revenue may not clearly fall into these categories. Moreover, ASC 606 and ASC 280 also include varying requirements to provide disclosure of revenue on a disaggregated basis.

We recommend that the SEC comprehensively review the disclosure and presentation requirements in Articles 4 and 5 to assess whether (1) they are duplicative with current requirements under U.S. GAAP or (2) unnecessary considering current financial reporting transactions, practices and the needs of investors.

- **Staleness of Financial Statements (Rule 3-01(c) of Regulation S-X)**

Rule 3-01(c) allows an existing registrant to file a registration statement between 45 days after its fiscal year-end and the due date of its annual report (Form 10-K) without including audited financial statements for the most recent year, provided it meets certain conditions. Specifically, it requires unprofitable companies (or companies that have recently migrated from loss-making to profit-generating) to provide annual financial statements earlier than other companies in connection with the filing of a registration statement. Since the rule was originally issued, the business landscape has changed significantly with a higher proportion of registrants representing pre-revenue and/or systematically loss-making companies that are well understood by investors to have these attributes (as a matter of construct/design/nature). Such companies are penalized (vis a vis companies that are in an income-generating position) by having to provide audited annual financial statements on an accelerated basis in connection with the filing of a registration statement (or otherwise delay the filing of a registration statement until after the filing of their audited financial statements for the most recently completed year). We recommend the Commission consider revisiting or eliminating this rule in Regulation S-X.

We would be happy to discuss these and other recommendations related to streamlining Regulation S-X disclosure requirements.

V. Other Observations

In SEC Release No. 33-10532, *Disclosure Update and Simplification*, issued in August 2018, the SEC referred certain of its disclosure requirements that overlap with, but require incremental information to, generally accepted accounting principles to the FASB for potential incorporation into the Codification. In October of 2023, the FASB issued ASU 2023-06 that incorporates certain SEC disclosure requirements into the Codification. The SEC must remove the applicable requirements from Regulation S-X or Regulation S-K by June 30, 2027 for the pending content to remain in the Codification and become effective for entities. We believe this simplification exercise is valuable to stakeholders and encourage the SEC to remove the related requirements from Regulation S-X or Regulation S-K by the deadline.



* * *

The CAQ appreciates the opportunity to respond to the request for input from Chairman Atkins and Division Director Moloney, and we would be pleased to further discuss our comments or answer questions regarding the views expressed in this letter. Please address questions to Annette Schumacher (aschumacher@thecaq.org) or Dennis McGowan (dmcgowan@thecaq.org).

Sincerely,

A handwritten signature in blue ink that reads "Annette Schumacher".

Annette Schumacher Barr, CPA
Senior Director, Professional Practice
Center for Audit Quality

cc:

SEC

Paul S. Atkins, Chairman
Hester M. Peirce, Commissioner
Mark T. Uyeda, Commissioner
Kurt Hohl, Chief Accountant
Heather Rosenberger, Chief Accountant, Division of Corporation Finance

EXHIBIT A

Technical Corrections and/or Amendments to SEC Release No. 33-10890 (Item 302(a)) of Regulation S-K

There are numerous ways Item 302 could be clarified/modified to facilitate a more streamlined approach to disclosures of supplementary financial information. For example:

- In Release No. 33-10890, *Management's Discussion and Analysis, Selected Financial Data, and Supplementary Financial Information*), the SEC noted the following:

"In a change from current Item 302(a), amended Item 302(a) will apply beginning with the first filing on Form 10-K after the registrant's initial registration of securities under sections 12(b) or 12(g) of the Exchange Act."



However, Item 302(a)(2) indicates the requirements apply to “any registrant...that has securities registered pursuant to sections 12(b)...or 12(g) of the Exchange Act after the registrant’s initial registration of securities under these sections.” Additionally, Item 11(g) of Form S-1 indicates that a registrant must furnish the “information required by Item 302 of Regulation S-K, supplementary financial information.”

We recommend the Commission consider explicitly limiting the applicability of Item 302 to quarterly periods for which financial information has been previously published by the registrant, which would create a functional “on ramp” for newly-public companies.

- To address circumstances when a registrant has included Item 302 disclosures in a Form 8-K filed to include recast financial statements reflecting the retrospective change in accounting, we suggest modifying Item 302(a) to include “unless such Item 302 disclosures have been previously included in a current report” or including an Instruction to that paragraph to clarify that “Item 302 disclosures are not required to be repeated in subsequent Form 10-K filings after such information has been filed with the SEC in the form prescribed by this Item”
- As clarified by the SEC staff at the May 2023 Joint Meeting with the CAQ’s International Practices Task Force (IPTF) Meeting, when an FPI who previously reported using IFRS-IASB issues its first set of financial statements in accordance with U.S. GAAP in its Form 10-K in the year it loses FPI status, it is required to include the disclosures required by Item 302 even though the former FPI had not previously filed quarterly financial statements prepared in accordance with U.S. GAAP. Reporting this retrospective change for each quarterly period may be of little relevance to the users of the financial statements since they did not have or rely on previously reported quarterly amounts. This also creates a burden for the registrant as each quarterly period presented is required to be reviewed in accordance with Item 302(a)(1) and the former FPI would not otherwise be required to present quarterly financial statements until the first quarter of the year following the year it no longer qualifies as an FPI.

We suggest modifying Item 302(a)(2) to exclude the first Form 10-K filed by a former FPI who has not previously filed quarterly financial statements prepared in accordance with, or reconciled to, U.S. GAAP. We believe this modification would be consistent with the intent of the 2008 Foreign Issuer Reporting Enhancements (SEC Release No. 33-8959) in that it would provide sufficient time for an FPI to transition to the domestic filer reporting obligations.

- Item 302(a) refers to the requirements of S-X 1-02(bb)(1)(ii) for the summarized quarterly financial information when there has been a retrospective change in the statement of comprehensive income. S-X 1-02(bb)(1)(ii) requires disclosure of net sales or gross revenues, gross profit (or, alternatively, costs and expenses applicable to net sales or gross revenues), income or loss from continuing operations, net income or loss, and net income or loss attributable to the entity (for specialized industries, other information may be substituted for sales and related costs and expenses if necessary for a more meaningful presentation).

In certain cases, the retrospective change may not impact any of the line items prescribed by S-X 1-02(bb) (i.e., it is a reclassification of items within one of the above captions. For example, it may be a reclassification between cost categories that are both reported after Gross Profit) or the registrant

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may report a performance measure that is not listed in S-X 1-02 (bb) (e.g., operating income). We suggest clarifying that the line items specified in S-X 1-02(bb)(1)(ii) should be disclosed to the extent they are affected by the retrospective changes and additional or alternative line items and performance measures from the statement of operations may be substituted to the extent more useful or relevant. For example, if a registrant does not disclose gross profit² on the face of the income statement, it may present operating income instead.

² Note that S-X 5-03 does not explicitly require presentation of either Gross Profit or Operating Income.