

Accounting & Auditing Update

SEC Amendments to Improve Financial Disclosures on Acquisitions and Dispositions of Businesses

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The Securities and Exchange Commission (SEC) recently voted to amend disclosure requirements for acquisitions and dispositions of businesses. The amendments are intended to improve for investors the financial information about acquired and disposed businesses, facilitate more timely access to capital, and reduce the complexity and cost to prepare the disclosures. In this Update, we encapsulate many of these amendments.

Financial Disclosures Relating to Acquisitions and Dispositions of Businesses

The amendments to the rules will impact the financial disclosure requirements in Rules 3-05, 3-14 and Article 11 of Regulation S-X, as well as related rules and forms, for financial statements of businesses acquired or to be acquired and for business dispositions.

The amendments include:

- Update to the significance test by revising the investment and income tests as well as expanding the use of pro forma financial information in measuring significance. Registrants must consider their market capitalization in the investment test and both their revenue and income from continuing operations before tax in the income test.
- Requirement that the financial statements of the acquired business cover up to the two most recent fiscal years rather than up to the three most recent fiscal years.
- Approval of the use in certain circumstances of, or reconciliation to, International Financial Reporting Standards as issued by the International Accounting Standards Board.
- Replacement of the requirement that registration statements include financial statements and pro forma financial information for the “mathematical majority” of the acquisitions that are significant in the aggregate with the requirement that they include only the financial statements of those acquisitions that individually exceed 20% significance. Must also include pro forma financial information about the aggregate effect of all acquisitions, in all material respects.
- Significance threshold for reporting a Registrant’s disposal of a business increased from 10% to 20%.
- Expansion of the use of abbreviated financial statements for acquisitions of businesses that meet certain criteria without expressly requesting the SEC’s permission.
- Revision to pro forma adjustment criteria by providing for transaction accounting adjustments that reflect the accounting for the transaction as well as autonomous entity adjustments if the Registrant was previously part of another entity and optional management adjustments to reflect the synergies of the transaction if they enhance an understanding of the pro forma effects of the transaction.

- Alignment of certain requirements for a real estate acquiree with those in Rule 3-05 of Reg. S-X.
- Inclusion of corresponding amendments to the financial disclosures of smaller reporting companies and investment companies.

Full Text

The complete version of the SEC's final rule issued on May 21, 2020 entitled **Amendments to Financial Disclosures about Acquired and Disposed Businesses** can be accessed [here](#).

Effective Date

The amendments will be effective on January 1, 2021, but early compliance will be permitted in advance of the effective date.

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 the partner in charge of your account or one of the following:

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