

Hot Topic: SEC

Interim disclosure requirement for changes in stockholders' equity

September 25, 2018



Clarifying the new requirement



Key impacts

In August 2018, the SEC issued a final rule¹ to amend certain disclosure requirements that were redundant, duplicative, overlapping or superseded by other SEC disclosure requirements, US GAAP or IFRS.² The amendments generally eliminated or otherwise reduced certain disclosure requirements of various SEC rules and regulations. However, in some cases, the amendments require additional information to be disclosed, including changes in stockholders' equity in interim periods.

The rule is effective 30 days after its publication in the Federal Register. As of the date of this publication, the rule has not been posted. On September 25, 2018, the SEC released guidance³ advising it will not object to a registrant adopting the requirement to include changes in stockholders' equity in the Form 10-Q for the first quarter beginning after the effective date of the rule – e.g. for a calendar year-end company, the first quarter of fiscal year 2019.



What's now required

Under the new rule, registrants will be required to disclose in interim periods on Form 10-Q (1) the changes in each caption of stockholders' equity and noncontrolling interests for the "current and comparative year-to-date periods, with subtotals for each interim period" and (2) the amount of dividends per share for each class of shares.⁴ The amendments require registrants, including smaller reporting companies, to provide information as prescribed by Rule 3-04 of Regulation S-X. Therefore, the interim disclosures of changes in stockholders' equity, including dividends per share amounts, may be given in a note to the financial statements or in a separate financial statement.

¹ SEC Final Rule 33-10532, [Disclosure Update and Simplification](#), August 17, 2018

² KPMG Defining Issues 18-17, [SEC simplifies and updates disclosure requirements](#), August 24, 2018

³ SEC [Compliance and Disclosure Interpretation 105.09](#), September 25, 2018

⁴ The rule amends Rules 10-01(a)(7) and 8-03(a) of Regulation S-X

Under Rule 3-04, the interim disclosures of the changes in stockholders' equity should be in the form of a reconciliation of the beginning balance to the ending balance for each period for which an income statement is required to be filed, with all significant reconciling items described by appropriate captions.

For example, on Form 10-Q for the nine months ended September 30, 20X8, consistent with the income statements required, the registrant would provide a reconciliation of the changes in stockholders' equity for:

- the nine-month period of January 1, 20X8 to September 30, 20X8; and
- the three-month period of July 1, 20X8 to September 30, 20X8.

The reconciliation should also reflect any adjustments to the balance at the beginning of the earliest period presented for items retroactively applied to periods prior to that period (e.g. retroactive adjustments related to the adoption of ASC 606).

Illustrative examples of these new interim disclosure requirements follow.

Two separate reconciliations

For the nine months ended September 30, 20X8

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Noncontrolling interest	Total
Balances at December 31, 20X7	\$ X	X	XXX	XXX	XX			—
Net income				XXX			XX	XXX
Other comprehensive income:								
Deferred unrealized gain on derivatives					XX			XX
Dividends declared:								
Preferred stock, \$XX.XX/share				(XXX)				(XXX)
Common stock, \$XX.XX/share				(XXX)				(XXX)
Acquisition of treasury stock						(XX)		(XX)
Cumulative effect adjustment			XX	(XXX)	XX			XXX
Balances at September 30, 20X8	\$ X	X	XXX	XXX	XX	(XX)	XX	XXX

For the three months ended September 30, 20X8

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Noncontrolling interest	Total
Balances at June 30, 20X8	\$ X	X	XXX	XXX	XX			—
Net income				XXX			XX	XXX
Other comprehensive income:								
Deferred unrealized gain on derivatives					XX			XX
Dividends declared:								
Preferred stock, \$XX.XX/share				(XXX)				(XXX)
Common stock, \$XX.XX/share				(XXX)				(XXX)
Acquisition of treasury stock						(XX)		(XX)
Cumulative effect adjustment								XXX
Balances at September 30, 20X8	\$ X	X	XXX	XXX	XX	(XX)	XX	XXX

Single reconciliation

For the nine months ended September 30, 20X8

	Preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Treasury stock	Noncontrolling interest	Total
Balances at December 31, 20X7	\$ X	X	XXX	XXX	XX	(XX)	XX	XXX
Net income		—	—	XXX	—		XX	XXX
Other comprehensive income:								
Deferred unrealized gain on derivatives		—	—	—	XX	—	—	XX
Dividends declared:								
Preferred stock, \$XX.XX/share	—	—	—	—	—	—	—	(XXX)
Common stock, \$XX.XX/share	—	—	—	(XXX)	—	—	—	(XXX)
Acquisition of treasury stock	—	—	—	—	—	—	—	(XX)
Cumulative effect adjustment	—	—	XX	(XXX)	XX	—	—	XXX
Balances at March 31, 20X8	\$ X	X	XXX	XXX	XX	(XX)	XX	XXX
Net income		—	—	XXX	—	—	XX	XXX
Other comprehensive income:								
Deferred unrealized gain on derivatives		—	—	—	XX	—	—	XX
Dividends declared:								
Preferred stock, \$XX.XX/share	—	—	—	—	—	—	—	(XXX)
Common stock, \$XX.XX/share	—	—	—	(XXX)	—	—	—	(XXX)
Acquisition of treasury stock	—	—	—	—	—	—	—	(XX)
Cumulative effect adjustment	—	—	—	—	—	—	—	XXX
Balances at June 30, 20X8	\$ X	X	XXX	XXX	XX	(XX)	XX	XXX
Net income		—	—	XXX	—	—	XX	XXX
Other comprehensive income:								
Deferred unrealized gain on derivatives		—	—	—	XX	—	—	XX
Dividends declared:								
Preferred stock, \$XX.XX/share	—	—	—	(XXX)	—	—	—	(XXX)
Common stock, \$XX.XX/share	—	—	—	(XXX)	—	—	—	(XXX)
Acquisition of treasury stock	—	—	—	—	—	(XX)	—	(XX)
Cumulative effect adjustment	—	—	—	—	—	—	—	XXX
Balances at September 30, 20X8	\$ X	X	XXX	XXX	XX	(XX)	XX	XXX

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