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REPORT
114–279

DISCLOSURE MODERNIZATION AND SIMPLIFICATION ACT OF 2015

OCTOBER 6, 2015.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. HENSARLING, from the Committee on Financial Services, submitted the following

R E P O R T

[To accompany H.R. 1525]

[Including cost estimate of the Congressional Budget Office]

The Committee on Financial Services, to whom was referred the bill (H.R. 1525) to require the Securities and Exchange Commission to make certain improvements to form 10–K and regulation S–K, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

PURPOSE AND SUMMARY

Introduced by Representative Scott Garrett, H.R. 1525, the "Disclosure Modernization and Simplification Act of 2015," directs the Securities and Exchange Commission to simplify its disclosure regime for issuers and investors by permitting issuers to submit a summary page on Form 10–K with cross-references to the content of the report. H.R. 1525 also directs the SEC to revise Regulation S–K to scale disclosure rules for emerging growth companies and smaller issuers, and to eliminate duplicative, outdated, or unnecessary Regulation S–K disclosure requirements for all issuers. Finally, H.R. 1525 directs the SEC to further study Regulation S–K and engage in rulemaking to implement additional reforms to simplify and modernize Regulation S–K disclosure rules within 360 days of enactment of the Act.

BACKGROUND AND NEED FOR LEGISLATION

H.R. 1525 directs the SEC to simplify its disclosure regime for issuers and investors by permitting issuers to submit a summary

page on Form 10–K with cross-references to the content of the report. Because the typical 10–K filed by an issuer is hundreds of pages long, investors find it difficult to locate important information about the company in the report. Permitting issuers to submit a summary page would enable companies to concisely disclose pertinent information to investors without exposing them to liability. This summary page would also enable investors to more easily access the most relevant information about a company.

H.R. 1525 also directs the SEC to revise Regulation S–K to scale disclosure rules for emerging growth companies and smaller issuers, and to eliminate duplicative, outdated, or unnecessary Regulation S–K disclosure requirements for all issuers. In addition, H.R. 1525 directs the SEC to further study Regulation S–K and engage in rulemaking to implement additional reforms to simplify and modernize Regulation S–K disclosure rules.

H.R. 1525 builds on Section 108 of the Jumpstart Our Business Startups Act (P.L. 112–106), which directed the SEC to study Regulation S–K in order to simplify and modernize disclosure rules. Although the SEC completed this study in December 2013, the study proposed few substantive reform measures. Because the SEC has failed to move quickly in modernizing Regulation S–K, Congress must encourage the SEC to take up these needed reforms through legislation. Simplifying and streamlining disclosure requirements will enable companies to divert fewer resources to compliance, freeing up additional capital for other purposes. In the 113th Congress, the House passed identical legislation, H.R. 4569, by voice vote.

In testimony before the Capital Markets Subcommittee on April 29, 2015, Tom Quaadman of the U.S. Chamber of Commerce described the negative effects that the ballooning of companies' annual disclosures has had on investors:

> This expansion and increased complexity of disclosure has contributed to the phenomenon of "disclosure overload," whereby investors are so inundated with information it becomes difficult for them to determine the most salient factors they need to make informed voting and investment decisions. Retail investors are particularly vulnerable, as they typically don't have an army of analysts or lawyers to pore through SEC filings of the companies they invest in. In fact, it is the number one reason why retail shareholder participation has dropped to levels as low as 5%. Effectively, because of this "overload" retail shareholders have become disenfranchised.

At the same hearing, Shane Kovacs, Executive Vice President and Chief Executive Officer of PTC Therapeutics, Inc., noted the problem that requiring uniform disclosure raises for investors:

> [T]he information that these investors want and need does not always align with what is required by the SEC. Investors find value in biotech companies by understanding scientific milestones and clinical trial progress not financial disclosures that simply show a decade-plus of R&D expenses. And yet small, pre-revenue biotechs are often required to file the same reports as revenue generating, profitable corporate behemoths. Other industries surely face their own unique circumstances, and many

small businesses across all sectors of the economy endure the cost burdens of overregulation—yet a blanket one-size-fits-all approach prevails.

HEARINGS

The Committee on Financial Services' Subcommittee on Capital Markets and Government Sponsored Enterprises held a hearing examining matters relating to H.R. 1525 on April 29, 2015.

COMMITTEE CONSIDERATION

The Committee on Financial Services met in open session on May 20, 2015 and ordered H.R. 1525 to be reported favorably to the House without amendment by a recorded vote of 60 yeas to 0 nays (Record vote no. FC–28), a quorum being present.

COMMITTEE VOTES

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires the Committee to list the record votes on the motion to report legislation and amendments thereto. The sole record vote in committee was a motion by Chairman Hensarling to report the bill favorably to the House without amendment. The motion was agreed to by a recorded vote of 60 yeas to 0 nays (Record vote no. FC–28), a quorum being present.

Record vote no. FC-28

Representative	Yea	Nay	Present	Representative	Yea	Nay	Present
Mr. Hensarling	X			Ms. Waters (CA)	X		
Mr. King (NY)	X			Mrs. Maloney (NY)	X		
Mr. Royce	X			Ms. Velázquez	X		
Mr. Lucas	X			Mr. Sherman	X		
Mr. Garrett	X			Mr. Meeks	X		
Mr. Neugebauer	X			Mr. Capuano	X		
Mr. McHenry	X			Mr. Hinojosa	X		
Mr. Pearce	X			Mr. Clay	X		
Mr. Posey	X			Mr. Lynch	X		
Mr. Fitzpatrick	X			Mr. David Scott (GA)	X		
Mr. Westmoreland	X			Mr. Al Green (TX)	X		
Mr. Luetkemeyer	X			Mr. Cleaver	X		
Mr. Huizenga (MI)	X			Ms. Moore	X		
Mr. Duffy	X			Mr. Ellison	X		
Mr. Hurt (VA)	X			Mr. Perlmutter	X		
Mr. Stivers	X			Mr. Himes	X		
Mr. Fincher	X			Mr. Carney	X		
Mr. Stutzman	X			Ms. Sewell (AL)	X		
Mr. Mulvaney	X			Mr. Foster	X		
Mr. Hultgren	X			Mr. Kildee	X		
Mr. Ross	X			Mr. Murphy (FL)	X		
Mr. Pittenger	X			Mr. Delaney	X		
Mrs. Wagner	X			Ms. Sinema	X		
Mr. Barr	X			Mrs. Beatty	X		
Mr. Rothfus	X			Mr. Heck (WA)	X		
Mr. Messer	X			Mr. Vargas	X		
Mr. Schweikert	X						
Mr. Guinta	X						
Mr. Tipton	X						
Mr. Williams	X						
Mr. Poliquin	X						
Mrs. Love	X						
Mr. Hill	X						
Mr. Emmer	X						

COMMITTEE OVERSIGHT FINDINGS

Pursuant to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee states that H.R. 1525 will reduce regulatory burden on issuers while enhancing the utility of disclosures to investors by requiring the SEC to revise certain registration and disclosure requirements and providing for the removal of duplicative or unnecessary provisions of such requirements.

NEW BUDGET AUTHORITY, ENTITLEMENT AUTHORITY, AND TAX EXPENDITURES

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee adopts as its own the estimate of new budget authority, entitlement authority, or tax expenditures or revenues contained in the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

COMMITTEE COST ESTIMATE

The Committee adopts as its own the cost estimate prepared by the Director of the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974.

CONGRESSIONAL BUDGET OFFICE ESTIMATES

Pursuant to clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the following is the cost estimate provided by the Congressional Budget Office pursuant to section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 18, 2015.

Hon. JEB HENSARLING,
Chairman, Committee on Financial Services,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1525, the Disclosure Modernization and Simplification Act of 2015.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Susan Willie and Ben Christopher.

Sincerely,

KEITH HALL,
Director.

Enclosure.

H.R. 1525—Disclosure Modernization and Simplification Act of 2015

H.R. 1525 would require the Securities and Exchange Commission (SEC), within 180 days of enactment, to revise certain registration and disclosure requirements for securities issuers with an aim to reduce the burden on smaller companies and to remove any duplicative or unnecessary provisions. The SEC also would be required, within 360 days of enactment, to report to the Congress on ways to further simplify those regulations and, 360 days after that, to issue a proposed rule based on the findings of the report.

Based on information from the SEC, CBO estimates that implementing H.R. 1525 would cost about $1 million over the 2016–2020 period to comply with the reporting and rulemaking requirements under the bill. The SEC is currently studying and in the process of revising certain registration and disclosure requirements, so the costs of the initial rulemaking required under the bill would not be significant. Most of the costs would be incurred to issue the report and complete a second rulemaking process. Under current law the SEC is authorized to collect fees sufficient to offset its appropriation each year; therefore, we estimate that the net cost to the SEC would be negligible, assuming appropriation action consistent with that authority. Enacting H.R. 1525 would not affect direct spending or revenues; therefore, pay-as-you-go procedures do not apply.

H.R. 1525 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

If the SEC increases fees to offset the costs associated with implementing the bill, H.R. 1525 would increase the cost of an existing mandate on private entities required to pay those fees. Based on information from the SEC, CBO estimates that the incremental cost of the mandate would amount to about $1 million over the 2016–2020 period and would fall well below the annual threshold for private-sector mandates established in UMRA ($154 million in 2015, adjusted annually for inflation).

The CBO staff contacts for this estimate are Ben Christopher and Susan Willie (for federal costs) and Logan Smith (for the private-sector impact). The estimate was approved by H. Samuel Papenfuss, Deputy Assistant Director for Budget Analysis.

FEDERAL MANDATES STATEMENT

The Committee adopts as its own the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates reform Act.

ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

APPLICABILITY TO LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of the section 102(b)(3) of the Congressional Accountability Act.

EARMARK IDENTIFICATION

H.R. 1525 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9 of rule XXI.

DUPLICATION OF FEDERAL PROGRAMS

Pursuant to section 3(g) of H. Res. 5, 114th Cong. (2015), the Committee states that no provision of H.R. 1525 establishes or reauthorizes a program of the Federal Government known to be duplicative of another Federal program, a program that was included in any report from the Government Accountability Office to Congress pursuant to section 21 of Public Law 111–139, or a program related to a program identified in the most recent Catalog of Federal Domestic Assistance.

DISCLOSURE OF DIRECTED RULEMAKING

Pursuant to section 3(i) of H. Res. 5, 114th Cong. (2015), the Committee states that H.R. 1525 requires three directed rulemakings.

SECTION–BY–SECTION ANALYSIS OF THE LEGISLATION

Section 1. Short title

This section cites H.R. 1525 as the "Disclosure Modernization and Simplification Act of 2015."

Section 2. Summary page for form 10–K

This section requires the SEC to issue regulations, within 180 days of enactment of the Act, to permit issuers to submit a summary page on form 10–K provided that such page includes a cross-reference to the material contained in form 10–K to which the item relates.

Section 3. Improvement of regulation S–K

This section requires the SEC to take action, within 180 days of enactment of the Act, to revise regulation S–K to reduce regulatory burdens on emerging growth companies, accelerated filers, smaller reporting companies, and other smaller issues, provided that it is not necessary to first determine the efficacy of such revisions through the study required under Section 4.

Section 4. Study on modernization and simplification of regulation S–K

This section requires the SEC to complete a study and issue a report concerning regulation S–K to Congress within 360 days of enactment of the Act. The SEC must issue a proposed rule to implement the recommendations contained in the report not later than the 360-day period beginning on the date that the report is issued to Congress.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

H.R. 1525 does not repeal or amend any section of a statute. Therefore, the Office of Legislative Counsel did not prepare the report contemplated by clause 3(e)(1)(B) of rule XIII of the House of Representatives.

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