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Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: File No. S7-20-15
Request for Comment on the Effectiveness of Financial Disclosures about Entities Other than the Registrant

Dear Office of the Secretary:

This letter is the response of BDO USA, LLP to the Request for Comment referred to above.

We support the Commission's initiative to review and consider ways to improve the effectiveness of the financial disclosure regime under Regulations S-X and S-K. In this regard, we believe that companies and investors are best positioned to provide feedback about the challenges they face in preparing the information and how certain disclosures are used to make investing and voting decisions. However, we appreciate the opportunity to provide feedback based on our experience working with registrants on their compliance with these rules. We have organized our comments and recommendations based on the S-X rules to which they relate. If the Commission revises the existing requirements, we encourage it to focus on drafting the revisions in plain English to further alleviate the complexity that is otherwise inherent in the rules.

S-X Rule 1-02(w) – Measuring Significance

Measuring significance

The significance tests in S-X Rule 1-02(w) require registrants to employ bright-line percentages to a certain set of financial measures. The tests can be difficult to apply, may produce anomalous results (particularly under the income test) and may not measure the economic significance of a particular transaction. The SEC staff has extensive implementation guidance available to assist registrants with the significance calculations. Despite this guidance, registrants frequently need to contact the staff for further guidance or to seek relief from the requirements. We believe the significance tests could be amended to reduce their complexity without sacrificing the objective of the disclosure requirements. Our recommendations are as follows:

1) *Replace the income test with a revenue test* determined by comparing the proportionate share of the revenue of the entity being evaluated to the

registrant's revenue for the last completed fiscal year. As highlighted in the Request for Comment and mentioned above, the application of the income test frequently yields anomalous results. Revenue of a tested entity is more readily available than income and relevant to investors. In addition, using a revenue-based test would simplify the calculation by removing the concept of income averaging, an area of unnecessary complexity that has required significant implementation guidance. In general, we believe a revenue-based test will be more cost-effective for registrants and result in fewer application questions and waiver requests. If the registrant or entity being evaluated has no revenue, we recommend the use of operating (rather than pretax) income or loss to measure significance. The use of operating income removes the impact of capital structure on the income statement, the effect of which can often cause some of the anomalies in the income test.

If, after input from investors, the Commission is inclined to maintain the income test, we believe improvements should be made to the income averaging calculation so it is used more frequently (and has a greater chance to minimize the anomalous results in any particular year). For example, income averaging should be permitted for the entity being evaluated as well as the registrant. Also, absolute values should be used for loss years instead of zero. Alternatively, loss years could be excluded from both the numerator and denominator (for example, if a loss was incurred in two of the previous five years, the denominator would be three).

2) *Replace the current investment test with an enterprise value test* by comparing the enterprise value of the entity being evaluated (equal to the U.S. GAAP purchase price plus any long-term debt assumed at fair value) to the enterprise value of the registrant (equal to the registrant's equity at fair value plus long-term debt at fair value) at its most recent fiscal year end. The current investment test requires comparison of a fair value based metric to a different metric that is book value based. Moreover, the numerator is reduced by the effect of the tested entity's leverage, while the denominator is increased by the effect of the registrant's leverage. We believe the application of an enterprise value test may more accurately capture significance of the entity being evaluated as it compares parallel financial metrics.

   Certain debt-only registrants may not have a readily available equity fair value. In such circumstances (or others to the extent the fair value of equity is not readily available), registrants should be permitted to substitute the book value of their equity as a practical expedient.

3) *Eliminate the asset test.* The asset test compares the historical book value of assets of the entity being evaluated to the historical book value of assets of the registrant. We do not believe carrying values measure the relative economic significance of the entity being evaluated, so we recommend that the Commission eliminate this test.

4) *Expand the use of pro forma amounts*. In performing the enterprise value test discussed above, we believe companies should be permitted to factor into the denominator the pro forma effects of financings subsequent to the latest fiscal year end (e.g., equity issuances or long-term borrowings), regardless of whether or not such effects appear in a subsequently filed Form 8-K, since such transactions impact the economic significance of the entity.

   We also believe the use of previously filed pro forma information should be permitted in all circumstances, including when such information appears in an IPO registration statement. Currently, the use of previously filed pro forma information is limited to situations where the information appears in Form 8-K or a non-IPO registration statement.

Measuring significance in an IPO registration statement

Staff Accounting Bulletin No. 80 (codified in SAB Topic 1.J) can be used to measure significance of acquired businesses by a first-time registrant if the acquired or to-be acquired businesses are discrete and remain substantially intact after the acquisition. SAB 80 is rarely used in practice by registrants who are otherwise eligible to use it primarily because the significance thresholds are lower than those in S-X Rule 3-05 and/or the pro forma income of the acquired entities is not determinable because they have not remained substantially intact after the acquisition. While there are many approaches the Commission could take with respect to SAB 80, we believe there are two simple improvements that would significantly enhance its functionality and use:

1) *Increase the significance thresholds so that they are in-line with the thresholds under S-X Rule 3-05.* The significance thresholds under SAB 80 were not updated in conjunction with the updates to the significance thresholds under S-X Rule 3-05 when the SEC adopted the final rule, *Streamlining Disclosure Requirements Relating to Significant Business Acquisitions*, in 1996. Conceptually, we cannot discern why the significance thresholds are lower under SAB 80 than S-X Rule 3-05.

2) *Allow registrants to use target historical amounts for the most recent fiscal year prior to the acquisition in the numerators* (and continue to compare them to registrant's pro forma amounts as of the latest fiscal year-end) instead of using target pro forma amounts as of the latest fiscal year-end and for the most recent fiscal year as the numerators. This would enable registrants to use SAB 80 even if acquired businesses have not remained substantially intact after the acquisition.

S-X Rule 3-05 – Financial Statements of Businesses Acquired or to be Acquired

Significance thresholds

While the Commission will want to heavily weigh the input of investors when contemplating what threshold is considered significant, our sense is that the current significance thresholds may be set too low. Moreover, we note that emerging growth companies are able to conduct their initial public offerings with two years of audited financial statements. We recommend that the Commission consider whether two years of historical financial statements are sufficient for any acquired business unless the acquisition is of major significance, a reverse acquisition, or the predecessor to the registrant.

Align the reporting requirements of the Securities Act and the Exchange Act

Certain reporting requirements vary between the Securities Act (33 Act) and the Exchange Act (34 Act). The 34 Act provides the information that investors use as the basis for their investment decisions every day. However, if an existing registrant conducts a registered offering under the 33 Act, the investors in that offering receive more current or extensive information than the registrant's other ("every day") investors. Conceptually, we do not understand why some of these differences exist in the information requirements for investors that trade shares every day in the public markets and those that participate in registered offerings. We believe the Commission should take steps to align the reporting for acquisitions under the Acts to enhance consistency across issuers and filings. Accordingly, we believe the Commission should consider the following changes:

1) *Eliminate reporting of individually insignificant acquisitions under the 33 Act.* Reporting of individually insignificant acquisitions is not required under the 34 Act. Our sense is that the financial statements of individually insignificant acquisitions are of limited use (as they are, by definition, insignificant).

2) *Eliminate the requirement to update the age of the target's financial statements and pro forma information in a non-IPO registered offering* when the target's financial statements and related pro forma information have been filed in a Form 8-K.

3) *Make the reporting requirements for probable acquisitions the same under the 33 Act and the 34 Act.* Currently, the historical financial statements and related pro forma information are required for a probable acquisition only in new or amended 33 Act registration statements. We believe the Commission should solicit the input of investors to determine what significance threshold should trigger reporting of probable acquisitions. Our sense is that the current 50% threshold may be too low from a cost-benefit perspective.

Form and content of the target financial statements

Except for acquisitions of certain oil and gas properties or real estate acquisitions under S-X Rule 3-14, requests to substitute abbreviated financial statements in lieu of full or carve-out financial statements must be directed to the SEC staff prior to filing. We believe the Commission should consider whether abbreviated financial statements should be permitted without pre-clearance in any circumstance in which the full financial statements are not otherwise available without undue cost or effort. If the abbreviated financial statements are provided in lieu of full financial statements, registrants should be required to disclose the reasons why they are presented and why they provide meaningful information to investors.

Additionally, with the increasing use of private company alternatives under U.S. GAAP (PCC accounting), we believe considerable time, effort and expense will be incurred by registrants to "undo" PCC accounting from the historical financial statements of acquired businesses. We question whether the benefits of removing PCC accounting from the historical financial statements will outweigh the cost of doing so. In lieu of requiring such adjustments in the historical financial statements of an acquired business, a registrant could make conforming adjustments in the pro forma financial statements to undo the PCC accounting. This approach would still illustrate the effects of the accounting differences but would alleviate the burden of preparing and auditing retroactive adjustments for all periods presented. We note this approach is similar to the treatment of conforming the accounting policies of the target to those of the acquirer in the pro forma financial statements.

Cross-border transactions

If a foreign private issuer that prepares its financial statements under IFRS as issued by the IASB acquires either (a) an entity that does not meet the definition of a foreign business or (b) a foreign business that prepares its financial statements in accordance with home country GAAP, the current rule requires the acquired entity to prepare its financial statements in accordance with or reconcile them to U.S. GAAP. Accordingly, the only place where U.S. GAAP information appears is in the target's historical financial statements. We question the utility of this information when the registrant does not provide any U.S. GAAP financial information. We believe registrants should be permitted to reconcile target financial statements to IFRS as issued by the IASB (i.e., the accounting standards used by the registrant) to reduce potentially unnecessary costs and enhance the utility of the information.

S-X Rule 3-14 – Financial Statements of Real Estate Operations Acquired or to be Acquired

The current rules treat real estate acquisitions differently than the acquisitions of other businesses under S-X Rule 3-05 which introduces additional unnecessary complexity into an already complex analysis. When the SEC amended S-X Rule 3-05 in 1996, it indicated that it was planning to consider changes to S-X Rule 3-14 as part of a "more comprehensive disclosure scheme." We believe that acquisitions of operating real estate and other businesses are similar conceptually. Accordingly, we believe the Commission should eliminate S-X Rule 3-14 and integrate the reporting for acquisitions of real estate with the acquisitions of other businesses in S-X Rule 3-05. In practice, abbreviated financial statements[1] of the acquired real estate operation are provided to satisfy the requirements and we support continuing this approach (in line with our recommendation above to permit abbreviated financial statements under S-X Rule 3-05).

[1] The abbreviated financial statements consist of a statement of revenue and certain direct expenses other than mortgage interest, depreciation, and amortization, taxes and overhead.

If the Commission is not inclined to integrate all of the reporting requirements, at a minimum, we believe the Commission should raise the significance thresholds under S-X Rule 3-14 in line with those in S-X Rule 3-05.

Article 11 – Pro Forma Financial Information

Definition of a business

Because the objectives of the definition of a business are different under Article 11 and the applicable accounting standards, we do not believe that it is necessary for the Commission to align the definition of a business. The objective of Article 11 is to require disclosure of prior financial information when it is "material to an understanding of future operations." We believe this is the right objective. To determine whether pre-acquisition financial statements are needed, Article 11 appropriately focuses on whether there is sufficient continuity of the acquired entity's operations (particularly the revenue-producing activity). Conversely, the definition of a business in the accounting standards contemplates whether inputs, processes and outputs exist *at* the acquisition date without consideration of whether they will continue *after* the acquisition date. Additionally, outputs are not required. Therefore, although they are not common, situations can occur where an integrated set of activities is considered a business under GAAP but the pre-acquisition financial statements are not material to an understanding of the acquirer's future operations. Examples include situations where the acquirer will use the acquired assets internally or the acquired business has not yet produced outputs. Providing pre-acquisition financial statements in these situations would be inconsistent with the objective of Article 11. Accordingly, we believe the Commission should retain the current definition of a business in Rule 11-01(d).

Usefulness

Under Article 11, pro forma financial information illustrates only the isolated and objectively measurable effects of a particular transaction. We support the guidance that maintains the objectivity of the information by requiring that it be factually supportable. However, we observe that many companies disclose that the pro forma financial statements are of limited use as they exclude the effects of management actions or other events that do not meet the factually supportable criterion. If the Commission is inclined to permit other adjustments to enhance the usefulness of the information for investors, we recommend that such adjustments be presented in a separate column or in the footnotes to the financial statements (to preserve current practice). If companies are inclined to disclose that the pro forma financial information is not meaningful or indicative of future operations, we believe they should be required to disclose why the information is not considered meaningful to promote transparency and enhance its usefulness.

Separately, we believe that audited annual financial statements of acquired businesses provide the basis for reliable pro forma presentations. Therefore, if the significance thresholds under S-X Rules 3-05 and 3-14 remain at their current levels, we believe the Commission should continue the current practice of requiring registrants to have filed annual audited financial statements of acquired businesses if they wish to present the related Article 11 pro forma financial information. However, if the Commission raises the significance thresholds that trigger reporting of pre-acquisition audited financial statements, it may want to consider permitting pro forma information reflecting the acquisitions without corresponding audited financial statements of the acquired businesses. If the significance thresholds increase, there will be more circumstances in which pre-acquisition audited financial statements will not be required but the corresponding pro forma financial information may still provide meaningful information to investors. In either case, we suggest that the Commission consider whether the requirements strike an appropriate balance between the reliability of the information provided and its meaningfulness.

Promoting Comparability and Consistency with U.S. GAAP Disclosures

The SEC staff's current guidance[2] indicates that companies should not present more than one year of pro forma financial information unless the transaction is a reorganization of entities under common control or a discontinued operation. However, U.S. GAAP requires two years of pro forma income statement information when comparative statements are presented.[3] We believe companies should be permitted to provide two years of pro forma financial statements under Article 11 to the extent they believe their investors will find them useful. Doing so could facilitate more meaningful comparisons in management's discussion and analysis when transactions significantly affect the year over year comparisons. Moreover, similar to the U.S. GAAP requirement, we believe the assumed acquisition date should be frozen under Article 11. Currently, the assumed acquisition date is changed when historical financial statements for a more recent fiscal year are provided and the fiscal year for which a pro forma statement of income is provided changes as well.

Certain other inconsistencies exist between the preparation of the U.S. GAAP pro forma disclosures and the Article 11 pro forma disclosures. For example, Article 11 income statements exclude the effects of nonrecurring charges or credits directly attributable to the transaction; U.S. GAAP requires these adjustments and supplemental disclosure. We believe the exclusion of these charges is consistent with the objective of Article 11 information but note that the inconsistency creates confusion. We recommend that the Commission coordinate with the FASB to remove non-recurring charges from pro forma financial information and address other inconsistencies that may exist in the requirements.

Auditor Involvement

The Request for Comment questions whether auditors should have any level of involvement with pro forma information. While the SEC's rules do not require auditor involvement, we note that auditors are currently involved in pro forma information to the extent:

1) It is required under the professional standards when an auditor's opinion on the financial statements is included in a filing with the related pro forma financial

[2] Paragraph 3230.1 of the Division of Corporation Finance Financial Reporting Manual (FRM)
[3] ASC 805-10-50-2(h)

information (e.g., when pro forma financial information is included in/incorporated by reference into a registration statement); or

2) Underwriters request the auditor's involvement as part of their due diligence responsibilities in connection with an offering of the company's securities. In such situations, auditors will frequently provide negative assurance comfort on the pro forma financial statements in accordance with AU 634, *Letters for Underwriters and Certain Other Requesting Parties*.

This level of auditor involvement has historically satisfied underwriters or other requesting parties performing due diligence procedures in connection with securities offerings. The Commission will need to consider the input of investors on this subject, but we doubt the costs of additional auditor involvement would outweigh the benefits.

Disposition Pro formas

The significance threshold that triggers reporting of the pro forma effects of a disposition is lower than that which triggers reporting of an acquisition (i.e., 10% for dispositions vs. 20% for acquisitions). Conceptually, it is not clear why this disparity exists and we observe that it creates confusion among preparers. We believe the Commission should consider raising the significance threshold for dispositions to conform it to that for acquisitions.

S-X Rules 3-09 and 4-08(g) – Financial Information of Equity Method Investees

While we ultimately defer to the perspective of investors, we question how useful some of the information provided under S-X Rules 3-09 and 4-08(g) is and the extent to which it should be required in some circumstances. In that regard, we have several observations and/or recommendations with respect to the requirements as follows:

1) *Raise the significance threshold at which audited financial statements are required*. S-X Rule 3-09 requires separate audited annual financial statements of equity method investees that are significant at the 20% level. Our sense is that 20% is an unnecessarily low threshold for providing full audited financial statements of an equity method investee. We wonder whether investors require full financial statements of the investee to make informed investment decisions except in situations in which the impact of the investee is much more significant than is required today. Similarly, our impression is that three years of audited investee financial statements should only be required if the investee is of major significance. Otherwise, two years of audited full financial statements should provide adequate information and transparency about the investee.

2) *Require financial statements only for the years in which the equity method investee is significant*. To the extent the Commission maintains the requirement to provide full financial statements of equity method investees, we believe financial statements should only be required for the years that the investee is significant. Considerable time and cost is incurred to prepare such information

that is not otherwise required or material. Accordingly, we question whether the requirement is cost-effective.

3) *Limit the need for financial statements to equity method investees that exist as of the latest balance sheet date*.

4) *Eliminate S-X Rule 4-08(g).* S-X Rule 4-08(g) requires summarized financial information for all equity method investees for annual reporting periods if their aggregate significance exceeds 10%. U.S. GAAP[4] requires disclosure of summarized financial information about equity method investees (either individually, or in groups, as appropriate) when they are, in the aggregate, material to the financial statements. We believe this requirement is sufficient and that the "duplication" of requirements should be eliminated by deleting Rule 4-08(g).

   If the Commission wishes to retain Rule 4-08(g), we observe that the utility of an investee's financial information is diminished when it's combined with other investees (e.g., losses can be offset by income, negative working capital of one investee can be offset by positive working capital of another, etc.). Accordingly, we believe that summarized financial information should only be required if the equity method investee is individually significant to the registrant and that the information should be presented separately for each significant investee.

5) *Eliminate the requirement to remeasure significance when there is a change in accounting principle*. Current staff guidance[5] indicates that registrants are required to remeasure the significance of equity method investees upon a retrospectively applied change in accounting principle or a discontinued operation. We agree with requiring remeasurement when there has been a substantive change in the business, like a discontinued operation. However, a change in accounting principle does not change the underlying economics of the business and accordingly, we do not believe remeasurement should be required.

6) *Eliminate the requirement to provide financial information about equity method investees on a quarterly basis*. Consistent with the updating concept for other interim reporting requirements,[6] registrants should not be required to provide the information unless there has been a material adverse change since year end.

<u>S-X Rules 3-09 and 4-08(g) – Additional Considerations for Investment Companies</u>

Investment companies, including business development companies ("BDCs"), are required to report their investments in <u>operating companies</u> at fair value and are prohibited from applying the consolidation and equity method of accounting for such investments.[7] Since S-X Rules 3-09 and 4-08(g) were adopted to establish uniform standards for implementing the disclosure requirements in the accounting standard

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[4] ASC 323-10-50-3(c)
[5] FRM paragraph 2410.8
[6] S-X Rule 10-01(a)(5)
[7] Except when such operating companies provide services to the investment company.

covering the equity method of accounting (APB Opinion 18), investment companies historically concluded that these rules did not apply to them. However, the SEC's Division of Investment Management changed practice for BDCs in 2013 when it issued guidance requiring them to comply with Rules 3-09 and 4-08(g) for their investments.[8] We doubt that investors find this information about BDCs' investments in operating companies to be material and suggest that the Commission consider amending these rules to clarify that they do not apply to investments by BDCs in operating companies.

Perhaps as an alternative, the Commission could consider expanding the information required by S-X Rule 12-14 for all investment companies (not just BDCs). Rule 12-14, *Investments in and advances to affiliates*, requires investment companies, including BDCs, to provide a schedule that contains specific information for each controlled portfolio company. Such information includes the fair value as of the reporting date, and interest income and dividend income during the reporting period, whereby the totals of these items agree to the balance sheet and to the income statement of the investment company. The Commission could expand on the content of schedule to also include other investment income, realized gain (loss) and change in unrealized gain (loss) for each controlled portfolio company that is a significant investee.

However, if the Commission (after input from investors) decides that BDCs should continue to apply S-X Rules 3-09 and 4-08(g) to operating company investees, we recommend that it modify these rules as described below.

1) *Eliminate the asset test*. Investments constitute substantially all of the assets of an investment company. We do not believe that the amount of an investee's assets is a key measure used by investors.

2) *Replace the income test with an investment income test*. For an investment company, income for purposes of the S-X Rule 1-02(w) significance test is the net increase (or decrease) in net assets from operations, which includes investment income earned and realized and unrealized gains (or losses) from its investments. Hence the numerator and denominator include changes in unrealized gains (losses) on investments. This can cause anomalous outcomes and require investee financial statements that may not be material investors. Further, significant changes in the fair value of an investment are sometimes not driven by factors reflected in the investee's financial statements, such a significant changes in market multiples.

   We understand that investors in BDCs typically invest is these vehicles for income distributions. Therefore, we believe that testing significance using investment income (i.e., interest, dividends and other income) is more relevant to investors. Consistent with our recommendation above to use revenue instead of pretax income to test significance for an operating company, this approach would also reduce anomalous results.

[8] IM Guidance Update 2013-07, *Business Development Companies—Separate Financial Statements or Summarized Financial Information of Certain Subsidiaries,* available at http://www.sec.gov/divisions/investment/guidance/im-guidance-2013-07.pdf.

3) *Codify guidance allowing BDCs to not provide summarized financial information for individually insignificant investees*. IM Guidance Update No. 2013-07 allows a BDC to disclose summarized financial information only for each individually significant investee, rather than all investees when the investees are significant in the aggregate. We suggest that the Commission codify this position in Rule 4-08(g).

We believe that these measures would also reasonably achieve the objective of Section 31 of the Investment Company Act of 1940 to avoid unnecessary recordkeeping by, and to minimize the compliance burden on, investment companies while providing investors with information that is relevant to investment companies, including BDCs.

S-X Rule 3-10 – Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered

In our experience, the annual and interim reporting requirements associated with S-X Rule 3-10 are time-consuming and costly for registrants. While separate financial reporting by the issuer and guarantor subsidiaries may not be necessary due to the "relief" available in S-X Rule 3-10, the preparation and presentation of the alternative disclosure (i.e., condensed consolidating financial information) can also be difficult to prepare and cumbersome. In some cases, the value of the alternative disclosure may be overshadowed by its multi-column voluminous nature. We have the following recommendations which we believe streamline the presentation without sacrificing the purpose of the disclosure:

1) *Permit registrants to combine the issuer with the guarantor(s) since they are jointly and severally liable for the outstanding securities.* We question the basis for requiring separate disclosure of the issuer and the guarantor when an investor seemingly would place more emphasis on whether the payment occurs (instead of which entity makes the payment). The same concept applies to disclosure of the non-guarantors in the aggregate. We do not believe a reconciliation should be required if appropriate disclosure is made of the aggregate obligated group (i.e., issuer and guarantor) or collective non-obligated group (i.e., all non-guarantors).

2) *Consider whether summarized financial information of the obligated group or the non-obligated group would be sufficient for purposes of assessing the quality of the guarantee.* Doing so would eliminate the cumbersome nature of the condensed consolidating financial information.

3) *Eliminate the interim reporting requirements under S-X Rule 3-10 unless there has been a material change in the obligated group's financial condition.* This concept is similar to our recommendation above with respect to equity method investees.

4) *Permit a registrant to cease reporting of S-X Rule 3-10 condensed consolidating financial information if the registrant ceases to have a 34 Act reporting obligation with respect to the debt and the guarantees.* Currently, the SEC staff

believes the information must be provided as long as the debt is outstanding even if the registrant files a Form 15.

5) *Permit registrants measuring the significance of newly acquired guarantor subsidiaries to use the same significance metrics discussed above for newly acquired businesses* (i.e., compare the acquired guarantor subsidiary to the obligated group instead of the principal amount of the securities being registered as is currently required).

S-X Rule 3-16 – Financial Statements of Affiliates Whose Securities Collateralize an Issue Registered or Being Registered

We rarely see the application of S-X Rule 3-16 in practice. We sense its lack of use is because compliance with the rule is so onerous that registrants structure deals to avoid the corresponding reporting requirements. We wonder whether audited summarized financial information of the affiliates whose securities provide substantial collateral for an issue of registered debt would be considered sufficient for purposes of evaluating the collateral in lieu of full financial statements that are currently required by the rule.

Additionally, we believe the Commission should consider revising the significance test. Currently, the denominator of the significance test is based on the collateralized securities outstanding at each balance sheet date. Thus, the significance of a collateral entity increases as the balance of the debt decreases. This increases the likelihood that collateral entity financial statements will be required as the balance of the debt decreases, which seems counter-intuitive. We do not believe significance should be impacted by repayments or repurchases of the securities. Therefore, we believe the denominator in the test should always be the amount of securities originally issued.

XBRL tagging in financial statements

The Commission has asked whether investors would benefit from having all of the disclosures related to entities other than a registrant made in an interactive data format. We understand that one of the primary objectives of providing financial information in XBRL format is to facilitate financial and business performance comparisons across companies, reporting periods and industries. The adopting release highlighted that automation also had the potential to "increase the speed, accuracy and usability of financial disclosure, and eventually reduce costs." The costs associated with XBRL tagging are significant and we doubt the benefits of tagging the financial information of entities other than the registrant would outweigh the costs. We perceive little benefit from the ability to compare the historical financial statements of targets in business combinations. Accordingly, we do not believe registrants should be required to tag the financial information of entities other than the registrant.

In addition, the purpose of condensed consolidating financial information required under S-X Rule 3-10 is to facilitate further analysis of a single registrant. Therefore, tagging such information is also not needed to provide the comparison benefits XBRL tagging is intended to provide. Accordingly we believe the Commission should either not require this information to be tagged or permit it to be block tagged, rather than detail tagged.

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We appreciate this opportunity to express our views to the Commission. We would be pleased to answer any questions the Commission or its staff might have about our comments. Please contact Jeffrey Lenz, National Director – SEC Practice, at (312) 616-3944 or via email at jlenz@bdo.com, or Christopher Smith, Accounting and Audit Professional Practice Leader, at (310) 557-8549 or via email at chsmith@bdo.com.

Very truly yours,

BDO USA, LLP