November 21, 2018

Mr. Brent J. Fields, Secretary
US Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0609

Re: File No. S7-19-18

Dear Mr. Fields:

We appreciate the opportunity to share our views and provide input on the Securities and Exchange Commission's (the SEC or the "Commission") Request for Comment on the proposed rule for *Financial Disclosures About Guarantors and Issuers of Guaranteed Securities and Affiliates Whose Securities Collateralize a Registrant's Securities* (the "Proposed Rule" or the "Proposal"). We commend the SEC for re-examining disclosure requirements for such securities currently required by Regulation S-X. Our observations and recommendations are included in the accompanying Appendix and are based on our experiences in working with the SEC's disclosure requirements as independent auditors.

We would be pleased to discuss our comments or answer any questions that the SEC staff or the Commission may have. Please do not hesitate to contact John May ([redacted]), Wayne Carnall ([redacted]) or Diane Howell ([redacted]) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

APPENDIX

I. Overall considerations

We support the Commission's objective of amending the Regulation S-X Rule 3-10 ("Rule 3-10") and Rule 3-16 ("Rule 3-16") disclosure requirements to reduce the costs and burdens to registrants and provide investors with material information that is easier to understand. The Proposed Rule is premised on the need to present information that is material to investors rather than on specific or bright line rules for disclosure. We agree that material information should be provided; however, we believe that deciding what may be material in practice may result in differing perspectives among registrants, users, investors and auditors. While we support many aspects of the Proposed Rule, in the following sections we outline our concerns and recommend alternatives.

II. Location of proposed disclosures

We recommend that the disclosures in the Proposed Rule be presented outside the financial statements. The Proposed Rule permits, but does not require, the disclosures to be provided outside the footnotes to the parent company's financial statements included in the registration statement and related prospectus covering the sale of the subject securities and in certain Exchange Act reports filed shortly thereafter. However, these disclosures are required to be included in the footnotes to the parent company's financial statements beginning with the annual report for the fiscal year during which the first bona fide sale of the subject securities is completed.

We believe that the optionality permitted in the Proposed Rule could lead to confusion and could create an expectation gap if the location of the information changes. For example, we believe it could be confusing if these disclosures are presented outside the parent's financial statements at the time the securities are purchased, but are included within the parent's financial statements in the annual reports following a bona fide sale. Additionally, by changing the location of the information, it becomes subject to different levels of auditor assurance, which could also create confusion and provide initial and secondary investors with different levels of assurance. For these reasons, we believe the location of the disclosures should be consistent.

We believe the disclosures should not be required to be included in the footnotes. The registrant should always be permitted to present them outside of the financial statements. We agree with the alternative location in the proposed rules: MD&A or after risk factors if an MD&A is not included. The objective of the disclosure is to provide an investor in a debt security with information about the related guarantee or collateralization. Given its objective, we believe that the Proposed Disclosures would be better presented in a discussion about a parent's liquidity in the MD&A as opposed to in the financial statements.

If based on input from investors and other stakeholders, the Commission concludes that this information should be included in the parent's financial statements, we recommend the disclosure be included in a supplemental schedule such as those specified in Article 12 of Regulation S-X. A supplemental schedule is preferable as we believe the Proposed Disclosures would primarily be of interest to investors in the registered debt security and not all financial statement users.

III. Level of detail of the Proposed Disclosures

We agree with the Commission that the disclosures required by current Rules 3-10 and 3-16 specify a level of granularity that may not be material to users of the financial statements and could distract users from financial information that would be material. In addition, we believe the Proposed Disclosures will reduce the cost of preparation of this incremental information as compared to current Rules 3-10 and 3-16.

We agree it is appropriate to present combined amounts for each issuer, guarantor and the parent company ("Obligor Group"). We also agree that it is appropriate to present all consolidated affiliates whose securities are pledged on a combined basis ("Collateralizing Subsidiaries"). However, we believe that the level of detail required by Regulation S-X Rule 1-02(bb) may be too condensed. We believe that users of financial statements would be better informed if the balance sheet and income

statement information of the Obligor Group and Collateralizing Subsidiaries were provided in a level of detail similar to that specified in Regulation S-X Rule 10-01. To illustrate, assume two registrants disclose the same amount of noncurrent assets, but the amount for Subsidiary A is comprised entirely of goodwill and the amount for Subsidiary B is comprised entirely of property, plant and equipment. We believe users of financial statements could find the nature of the assets important in evaluating the guarantee or collateral arrangement. Additionally, we believe disclosure of intercompany amounts with entities not presented in the combined disclosures may be appropriate.

We acknowledge that Proposed Rules 13-01(a)(5) and 13-02(a)(5) require quantitative information that would be material to an investment decision with respect to the security. However, we believe that a requirement to use captions that comply with Rule 10-01 will result in a more consistent presentation that would be helpful to investors.

IV. Provision to disclose any other quantitative or qualitative information that would be material

Proposed Rules 13-01(a)(5) and 13-02(a)(5) provide a broad requirement to disclose any other quantitative or qualitative information that would be material to making an investment decision with respect to a guaranteed or collateralized security. Existing S-X Rule 3-10(i)(11), however, only provides for disclosure that would be material for investors to evaluate the sufficiency of the guarantee. We believe the proposed disclosure requirements in Rules 13-01(a)(5) and 13-02(a)(5) may be too broad to be operational and could be particularly challenging to audit given they could require a more subjective evaluation of materiality that is inconsistent with how management and auditors consider the materiality of disclosures in the context of the financial statements taken as whole. We believe the existing rule should be retained.

V. When the Proposed Disclosures are required

Currently, financial statements or summarized financial information is required when a subsidiary guarantee is registered or a subsidiary issuer registers guaranteed debt (S-X Rule 3-10). Separately, financial statements are required when the securities of a registrant's affiliate constitute a substantial portion of collateral for a class of securities registered or being registered (S-X Rule 3-16). These requirements can result in disclosure being required before a prospectus supplement has been filed to takedown off a shelf.

A registrant could conclude that disclosure is not material if no investor owns (or is currently being offered) the specific guaranteed or collateralized security and therefore it can be excluded based on the guidance in Rules 13-01 and 13-02. However, we believe this concept of materiality could be inconsistently applied in similar fact patterns.

Currently, as articulated in Section 2630.1 of the Division of Corporation Finance Financial Reporting Manual, a company is not required to provide financial statements under Rule 3-16 until there is a takedown off a shelf. Consistent with this guidance, we believe that the disclosures in Rules 13-01 and 13-02 should not be required if a registrant files a shelf registration statement until it files a prospectus supplement for a takedown of guaranteed or collateralized securities.

VI. Method for excluding non-obligated subsidiary financial information in the Proposed Alternative Disclosures

We agree with the Proposal that the financial information of non-obligated subsidiaries should be excluded from the Summarized Financial Information of the Obligor Group, even if an issuer or guarantor would consolidate those non-obligated subsidiaries. The Proposed Rule provides that the parent company is able to determine which method best meets the objective of excluding the financial information of non-obligated subsidiaries from the Proposed Disclosures, so long as the selected method is disclosed and used for all non-issuer and non-guarantor subsidiaries for all classes of guaranteed securities for which the disclosure is required.

While we support optionality in the selection of the method, we believe the choices should be limited and specified in the rule. We believe there are three acceptable methods to present the financial information of non-obligated subsidiaries in the Obligor Group for companies that prepare their financial statements using US GAAP or IFRS:

1. The cost method as previously contemplated by GAAP (or the fair value practical expedient for equity securities without a readily-determinable fair value model as contemplated in ASC 321-10-35-2) or the amortized cost method as contemplated by IFRS 9
2. The equity method
3. The fair value method

Further, as noted in Section III, we believe disclosure of the Obligor Group's balance sheet and income statement information at a level of detail similar to that specified in Rule 10-01 would result in the disclosure of information about the impact of the non-obligated subsidiaries on the Obligor Group.

Alternatively, although not contemplated in the Proposed Rule, we would support providing an option for registrants to exclude the balances related to investments in non-obligated subsidiaries altogether. This would eliminate the possible confusion over including amounts attributable to the non-obligated subsidiary investments within the Obligor Group. We believe this presentation is consistent with the objective of the Proposed Disclosures.

VII. Periods to present

We support the elimination of the requirement to provide annual information for periods that precede the most recently completed fiscal year. We do not believe, however, that interim disclosure should always be required. We believe annual information is sufficient for investor protection unless there have been significant changes in the financial information of the Obligor Group or Collateralizing Subsidiaries compared to the annual period. Similar to the requirements in Item 303(a)(4) of Regulation S-K for off balance sheet arrangements and Regulation S-X Rule 10-01(a)(5) for financial statement disclosures, we believe interim information should only be required when there has been a change in the financial information of the Obligor Group or Collateralizing Subsidiaries that would be material to an investor.

If the Commission concludes interim information is required, we agree that it should only be required for year-to-date periods and not on a quarterly basis.

VIII. Identification of the issuers and guarantors and the security pledged

Proposed Rules 13-01(a)(1) and 13-02(a)(1) require, if material, the identification and disclosure of the issuers and guarantors of the guaranteed security and the security that is pledged as collateral. Outside of the registration statement and/or the related prospectuses that would identify the entities, it is not clear why this information would be meaningful to an investor in the context of financial disclosures. We recommend that such a listing only be required upon registration of guaranteed or collateralized securities and the related prospectuses. Alternatively, if the Commission believes this information should be presented in connection with an annual report, we recommend the Commission consider requiring the disclosure in an exhibit to the subject report (similar to Exhibit 21).

IX. Additional disclosure in certain collateralized debt situations

Many indentures include provisions that are designed to preclude the need to file financial statements pursuant to Rule 3-16. The provisions will automatically modify the collateral that has been pledged to reduce it to an amount below the level that will require financial statements. As the Proposed Disclosures no longer require full financial statements, these provisions would no longer be invoked and the collateral will no longer be modified. While the Proposal will generally reduce the reporting requirements for guarantor arrangements, the practical impact for many collateralizations will be to require the preparation of information that was not previously required. Companies will need time to identify the debt agreements and the subsidiaries that would be

impacted by the Proposed Rule requirement and to prepare the incremental disclosures. Accordingly, we recommend that the Commission provide additional transition time for the disclosures required under Rule 13-02.

X. Continuous reporting obligation

We support the Proposal's objective of permitting a parent to cease providing the disclosures required by Rule 13-01 once each subsidiary issuer's and subsidiary guarantor's reporting obligations are suspended (either automatically by operation of Exchange Act Section 15(d)(1) or through compliance with Exchange Act Rule 12h-3). However, we believe this significant change in practice would be better articulated with explicit disclosure in Rule 13-01 as to when a company can cease providing this information.

XI. Transition guidance

We recommend including detailed transition guidance in the final rule that addresses how the effective date should be contemplated by registrants currently providing separate financial statements or condensed consolidating information in their Exchange Act reports as well as for new registration statements filed after the effective date.