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SEC's integrated disclosure system;

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The SEC’s Integrated Disclosure System
## CONTENTS

**Executive Summary** 4

**Adoption of Final Rules** 8
- Amendments to Annual Report Form, Related Forms, Rules, Regulations and Guides 8
- Uniform Instructions as to Financial Statements 14
- General Revision of Regulation S-X 20
- New Form S-15 28

**Rule Proposals** 33
- Proposed Registration Forms A, B and C 33
- Proposed Amendments to Form 10-Q 39

**Future Initiatives** 42

**Appendices**
- **A** Information Required in Annual Report to Shareholders 45
- **B** Reference Table of Changes in Form 10-K 48
- **C** Reference Table of Rule Changes in Regulation S-X 51
- **D** Revised Management Discussion and Analysis — Text of Adopted Rules 65
- **E** Proposed Disclosure Requirements for Forms A, B and C 71
- **F** Comparison of Existing Requirements with Proposed Requirements — Form 10-Q 76
Executive Summary

Recently the SEC adopted and proposed major changes in its disclosure systems under the Securities Act of 1933 ("Securities Act") and the Securities Exchange Act of 1934 ("Exchange Act") (together the "Securities Acts") intended to foster the concept of an integrated disclosure system.

The adopted changes include amendments to Form 10-K (which is an annual report), amendments to the proxy rules, expansion of and amendments to Regulation S-K (which governs the non-financial statement disclosure rules), uniform financial statement instructions, a general revision of Regulation S-X (which governs the form, content and requirements of financial statements) and a new simplified, optional form for the registration of securities issued in certain business combinations.

The proposed changes comprehend three new registration forms under the Securities Act and amendments to Form 10-Q (which is a quarterly report).

Underlying Rationale and Objectives — The integrated disclosure system is premised on the belief that investors expect to be furnished the same basic information package both to support current information requirements of an active trading market (that is, periodic reporting under the Exchange Act) and to provide information in connection with the sale of newly issued securities under the Securities Act. The SEC’s initiative is intended to:

- Improve disclosure to investors and other users of financial information;
- Achieve a single disclosure system at reduced cost; and
- Reduce current impediments to combining shareholder communications with official SEC filings.

Basic Information Package — The essential components of the basic information package, which must be included in Form 10-K and in the annual report to shareholders, are:

- Audited financial statements;
- A summary of selected financial data; and
- A meaningful description of an enterprise’s business and financial condition.
Annual Report to Shareholders — The SEC did not adopt its proposal for mandatory incorporation by reference of the basic information package in the annual report to shareholders into the Form 10-K. Instead, it adopted an optional approach with the expectation that the design of the new integrated disclosure system would encourage both incorporation by reference and the combination of the annual report and Form 10-K into one document. The SEC views the annual report to shareholders as the most effective means of shareholder communication and the adopted changes are not intended to affect the format, readability or quality of existing shareholder reports. The principal thrust of the changes was to standardize disclosure items in annual reports to shareholders to make them consistent with similar requirements in SEC filings. The additional information that will be required in annual reports to shareholders includes:

- An expanded management discussion and analysis;
- A new summary of selected financial data; and
- An additional year of statements of income and changes in financial position and related footnote disclosures.

Appendix A provides a comparison of existing requirements with new requirements for annual reports to shareholders.

Amendments to Form 10-K — The amendments to Form 10-K and the related modifications of Regulation S-K and the proxy rules include:

- A revised management discussion and analysis of an enterprise's financial condition and results of operations, focusing on liquidity, capital resources and a narrative discussion of the impact of inflation and changing prices on the enterprise;
- Deletion of the summary of operations;
- A new summary of selected financial data; and
- A requirement that certain officers and a majority of directors sign the Form 10-K.

Uniform Instructions as to Financial Statements — Given the underlying rationale of an integrated disclosure system, the SEC believes that the existing differences in requirements for the time periods to be covered by financial statements included in most registration and reporting forms filed with the SEC and in annual reports to shareholders
is not warranted. Accordingly, it has adopted amendments to Regulation S-X that establish uniform instructions as to periods to be covered by financial statements in most such reports. These amendments include:

- A requirement for audited statements of income and changes in financial position for the most recent three years and balance sheets for the most recent two years; and

- Deletion of the requirement for complete financial statements and schedules for interim periods presented in registration statements; instead, interim data may be provided in the same degree of detail as is required in Form 10-Q.

**General Revision of Regulation S-X** — The amendments to Regulation S-X will bring about uniformity between financial statements included in annual reports to shareholders and those prepared in accordance with Regulation S-X for most enterprises and will eliminate or modify existing requirements no longer considered necessary. Changes to the amendments proposed in January 1980 include:

- Withdrawal of a proposed expanded income tax reconciliation, except for the requirement to disclose the domestic and foreign components of income before income taxes; and

- Withdrawal of a proposal calling for expanded disclosures in the property, plant and equipment schedule (future amendments may be proposed).

**Effective Date** — The amendments to Form 10-K, Regulations S-X and S-K, and the proxy rules are effective for fiscal years ending after December 15, 1980. However, the SEC will accept filings and reports complying with the amendments immediately.

**New Form S-15** — The SEC adopted a new Form S-15 which is an optional, experimental form that can be used to register securities issued in certain business combinations. The form provides for an abbreviated prospectus to be delivered to shareholders together with a copy of the issuer’s latest annual report to shareholders. The form generally will be available for Securities Act registration purposes where the issuer meets certain prescribed conditions and the business combination transaction does not affect certain financial statement amounts of the issuer by more than 10%.
Proposed Registration Forms A, B and C — The SEC proposed for comment three new Securities Act registration statement forms which would constitute the basic disclosure document format for most Securities Act registrations. The proposal would establish different levels of disclosure and delivery requirements applicable to different classes of enterprises registering offerings of securities.

Proposed Amendments to Form 10-Q — The SEC proposed for comment amendments to Form 10-Q designed to:

- Encourage and facilitate the integration of quarterly reports on Form 10-Q with quarterly reports furnished to shareholders;
- Make certain disclosure requirements for interim periods consistent with the revised disclosure requirements for annual periods; and
- Centralize a uniform set of instructions for interim financial statements in Regulation S-X.

Overview of the Booklet — The changes summarized above are part of the stated objective of the SEC to standardize and simplify reporting requirements under the Securities Acts. The “Adoption of Final Rules” and “Rule Proposals” sections and related appendices of this booklet contain a more detailed description of the adopted and proposed requirements, give additional background information and provide insight into the reasons for the SEC’s recent actions which should be particularly useful to accounting and financial personnel, securities lawyers, financial analysts and others in the investment and business community.

The “Future Initiatives” section may be of particular interest to senior executives and members of audit committees and boards of directors. That section contains information concerning the SEC’s continuing review of its disclosure rules, other disclosure modifications that the SEC staff is still considering (including giving shareholders the option of receiving a simplified annual report) and the recent reorganization of the Division of Corporation Finance.

The information contained in this booklet highlights and analyzes the important changes in SEC reporting requirements. However, reference should be made to the SEC releases for a full description of the adopted and proposed requirements.
Adoption of Final Rules

Amendments to Annual Report Form, Related Forms, Rules, Regulations and Guides. In adopting amendments to Form 10-K, the SEC acknowledged that an annual report to shareholders and a Form 10-K are not necessarily used in an identical manner and that the most frequent users of the more detailed Form 10-K information have been institutional investors, security analysts and sophisticated individual investors. The SEC further recognized that it continues to be appropriate to focus primarily on these frequent user constituencies in formulating Form 10-K requirements, but that such a focus would not be appropriate in formulating requirements for annual reports to shareholders. Accordingly, equivalent disclosure is being required by the SEC in both documents only for the basic information package.

- The emphasis of the SEC has changed from the Form 10-K to the basic information package, wherever the package appears. The SEC decided not to mandate a totally combined Form 10-K and annual report to shareholders recognizing the possibility that such a mandate could adversely affect the readability of the annual report to shareholders. The principal reason for such concern relates to the volume of disclosure required by the existing SEC disclosure rules concerning business, properties, legal proceedings and separate financial statements (see “Future Initiatives”).

Revised Structure. Several items in the present Form 10-K have been deleted and others have been simplified or moved to schedules or exhibits. Such changes have been made to eliminate unnecessary or duplicative disclosure in SEC filings through the expansion of Regulation S-K and the placement of disclosure of a technical or supplementary nature in schedules or exhibits. The revised Form 10-K is structured in the following manner:

General Instructions.

Cover Page.

Part I.

- Item 1. Business.
- Item 2. Properties.
- Item 3. Legal Proceedings.
Part II.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Item 8. Financial Statements and Supplementary Data.

Part III.

Item 9. Directors and Executive Officers of Registrant.
Item 10. Management Remuneration and Transactions.

Part IV.

Item 11. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

Signatures.

Supplemental Information.

The information required by Parts I and II, at the registrant's option, may be incorporated by reference from the annual report to shareholders, provided that the incorporated portion contains the disclosure required by the appropriate items of Parts I and II of Form 10-K. The information required by Part III must be incorporated by reference from the proxy or information statement, if such statement has been or will be filed within 120 days of the end of the fiscal year.

A comparison of existing requirements with new requirements for Form 10-K is provided in Appendix B.
Form 10-K Items and Instructions Which Are New or Are Revised.

General Instruction A — Rule as to Use of Form 10-K. A technical amendment was made to clarify that only the schedules under Article 12 of Regulation S-X may be filed up to 120 days after the end of the fiscal year. Other financial statement schedules such as parent company statements are due within 90 days after year-end.

General Instruction D — Signatures and Filing of Report. The SEC adopted a requirement calling for the signatures of a majority of a registrant's directors, its principal executive officer, its principal financial officer and its controller or principal accounting officer.

○ The SEC noted that the attention of the private sector, including management, directors, accountants and attorneys, must be refocused toward Exchange Act filings in the same manner that its rules and the administrative focus of the Division of Corporation Finance (see "Future Initiatives") are being realigned to reflect the shift in emphasis toward relying on periodic disclosure under the Exchange Act. The SEC indicated that it anticipates that directors will be encouraged to devote the needed attention to reviewing the Form 10-K and to seek the involvement of other professionals to the degree necessary to give themselves sufficient comfort.

Item 1 — Business. The principal changes adopted in this item were to amend the relevant portions of the segment disclosures to conform to the new three-year (reduced from five years) requirement for statements of income and to delete the requirement for information on intra-enterprise sales.

○ The SEC noted that significant trend data by segment might still be presented in the Selected Financial Data section.

Item 5 — Market for the Registrant’s Common Stock and Related Security Holder Matters. This item, which calls for the disclosure specified in new Item 9 of Regulation S-K, must be included in the annual report to shareholders and Form 10-K (incorporation by reference from the shareholder report is optional). Required disclosures include:

- Quarterly price data of an enterprise’s common stock for the last two years;

- The approximate number of holders of common stock as of the latest practicable date; and
- The frequency and amount of any dividends paid during the past two years on common stock and any restriction on the issuer's present or future ability to pay dividends.

  o The SEC amended the proposed requirement on future dividend policy to make such disclosure optional. Registrants who have a record of paying no dividends although earnings indicate an ability to do so are encouraged by the SEC to consider the question of their intention to pay cash dividends in the foreseeable future and, if no such intention exists, to make a statement of that fact. The SEC also encourages registrants who have a history of paying dividends to indicate whether there is a present expectation that dividends will continue to be paid in the future.

  o An instruction has been added to provide data on currency restrictions, taxation, etc., on dividends payable to U.S. holders of foreign securities.

**Item 6 — Selected Financial Data.** This new requirement is designed to present significant five-year trend data relating to an enterprise's financial condition and results of continuing operations. This item, which calls for the disclosure specified in new Item 10 of Regulation S-K, must be included in the annual report to shareholders and Form 10-K (incorporation by reference from the shareholder report is optional). Subject to appropriate variation to conform to the nature of an enterprise's business, the following items must be presented:

  - Net sales or operating revenues;
  - Income (loss) from continuing operations;
  - Income (loss) from continuing operations per common share;
  - Total assets;
  - Long-term obligations and redeemable preferred stock (including capital leases); and
  - Cash dividends declared per common share.

  o The SEC stated that it believes that the Selected Financial Data section strikes a reasonable balance between specified content and a flexible approach that permits registrants to select that data which best indicates performance. The SEC encourages registrants to present those additional elements that they believe will aid investors and other users.
The proposed requirement to include working capital or another measure of liquidity was deleted. The SEC believes that the disclosures required by the new management discussion and analysis should be adequate to address liquidity and trends therein.

Registrants required to provide five-year summary information in accordance with Statement of Financial Accounting Standards No. 33 ("Statement No. 33"), "Financial Reporting and Changing Prices," may combine such information with the data required in this section.

Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations. The revised discussion is designed to focus on the financial statements as a whole rather than the summary of operations and calls for discussion of at least three financial aspects of an enterprise's business — liquidity, capital resources and results of operations. Within each area of discussion, favorable or unfavorable trends and the identification of significant events or uncertainties should be emphasized. This section also requires a narrative discussion of the effects of inflation and changing prices on an enterprise's net sales and revenues and on income from continuing operations. The discussion, which is specified in new Item 11 of Regulation S-K, must be included in the annual report to shareholders and Form 10-K (incorporation by reference from the shareholder report is optional). Significant revisions include:

- Elimination of percentage tests and line-by-line analysis heretofore encouraged;
- Discussion of individual segments only if, in the registrant's judgment, it would aid in an understanding of the registrant's business;
- Encouragement of, but not mandating, discussion of those aspects which are entirely forward-looking in nature;
- Combination, at the registrant's option, of the discussion of liquidity and capital resources; and
- Permission to foreign registrants to use their own country's version of Statement No. 33, if it exists (however, they are required to discuss any governmental factors having a material impact on U.S. shareholders).

The SEC has indicated that it believes that disclosures contained in management discussions have not fulfilled their originally contemplated objectives. The focus has been too narrow. The SEC perceives a growing need to analyze an enterprise's liquidity and capital resources, in addition to its revenues and income.
○ Additionally, the SEC has expressed concern about the adequacy of disclosures with respect to the impact of inflation and changing prices. Although the SEC does not believe that it is appropriate at this time to expand the applicability of Statement No. 33, it has expressed the view that all registrants should make some textual presentation concerning the impact of inflation and changing prices. In the adopting release, the SEC clarified that the Statement No. 33 detailed analysis is not necessary for smaller registrants who are not required to comply with Statement No. 33.

○ The liquidity section, as adopted, was revised from that proposed to de-emphasize working capital and to emphasize the right and obligation of a registrant's management to use whatever liquidity parameters it considers most appropriate.

Because of their significance, the full text of the adopted rules concerning management discussion and analysis is presented in Appendix D.

**Items Deleted From Form 10-K.** The following items have been deleted from Form 10-K:

- Summary of Operations;
- Parents and Subsidiaries;
- Increases and Decreases in Outstanding Securities and Indebtedness;
- Changes in Securities and Changes in Security for Registered Securities;
- Defaults Upon Senior Securities;
- Submission of Matters to a Vote of Security Holders;
- Indemnification of Directors and Officers; and
- Approximate Number of Equity Security Holders.

The summary of operations was deleted principally because of (i) the SEC's view that five-year information is relevant primarily where it can be related to trends in the registrant's continuing operations whereas the summary was not so limited, and (ii) the change in the focus of management discussion and analysis to a discussion of the financial statements. It should be noted that instructions as to the ratio of earnings to fixed charges appearing in applicable registration and reporting forms are being retained in such forms as part of the new item,
"Selected Financial Data." This was done as an interim measure pending the SEC staff's review of comments received on its recent concept release in which it requested comments from the public concerning the utility of historical and pro forma ratios of earnings to fixed charges. The SEC stated in the adopting release that a rule proposal concerning this matter is expected to be considered in the near future.

The parents and subsidiaries item was replaced by a new exhibit requiring a listing of significant subsidiaries. (The proposal would have required a listing of all subsidiaries.)

The next five items identified above were deleted either because the information called for was considered not generally useful or because the information is available elsewhere.

The substance of the last item deleted has been added to new Item 5 of Form 10-K.


**Items Unchanged in Form 10-K.** The following items in Form 10-K are unchanged:

- Properties;
- Legal Proceedings;
- Security Ownership of Certain Beneficial Owners and Management;
- Directors and Executive Officers of the Registrant; and
- Management Remuneration and Transactions.

**Effective Date.** The amendments apply to all filings and reports pursuant to the Securities Acts for fiscal years ending after December 15, 1980. However, the SEC will accept filings and reports complying with the amendments immediately.

**Uniform Instructions as to Financial Statements.** The SEC adopted, in Regulation S-X, uniform instructions as to the periods to be covered by financial statements, providing for audited statements of income and changes in financial position for the most recent three fiscal years and audited balance sheets as of the end of the most recent two fiscal years in most disclosure documents prepared under the Securities Acts and in
annual reports to shareholders. (Incorporation by reference of the financial statements from the shareholder report into Form 10-K is optional, however.) In addition, the SEC adopted uniform instructions as to the age, form and content of interim financial statements to be included in filings. The intent of the new rules is to make reporting requirements for interim financial statements uniform for all filings.

- The SEC’s decision to require statements of income and changes in financial position for three years is premised on the view that investors should be provided sufficient detail to analyze and understand an enterprise’s results of operations for at least the most recent two fiscal years — thus necessitating three years of data to make year-to-year comparisons for two years possible. This concept coincides with the SEC’s requirement (in existence since 1974) for a registrant to provide in its annual report a management discussion and analysis of its results of operations for the most recent three fiscal years.

**Interim Financial Information – Age, Form and Content.** Under requirements of various registration and reporting forms, a “90-day” or “six-month” rule had been followed to determine the age of financial information filed. The amendments to Regulation S-X that were adopted revise these requirements to recognize quarterly reporting requirements under the Exchange Act and ensure that interim data provided in registration statements under the Securities Act are at least as current as the data already filed under the Exchange Act. Additionally, the amendments eliminate the requirement to provide complete financial statements and schedules for interim periods and allow interim data to be presented in condensed financial statements in the same degree of detail as is required in Form 10-Q.

**Age of Financial Statements for Filings Within 90 Days of Year-End.** Exceptions to the general rule on periods to be covered by the financial statements were adopted for filings, other than on Form 10-K or Form 10, made within 45 days after the end of the registrant’s fiscal year for which audited financial statements for the most recently completed fiscal year are not yet available. In these circumstances, the rules provide that:

- The audited balance sheets may be as of the end of the two preceding fiscal years and audited statements of income and changes in financial position may be presented for each of the three fiscal years preceding the most recent audited balance sheet presented;
• An additional balance sheet (which may be unaudited) will be required as of an interim date at least as current as the end of the registrant's third fiscal quarter of the most recently completed fiscal year; and

• Unaudited statements of income and changes in financial position will be required for the interim period between the date of the most recent audited balance sheet presented and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding fiscal year.

○ Assume that a calendar year enterprise files a Securities Act registration statement on February 1, 1981, before its 1980 audited financial statements are available. The financial statements required to be included in such filing are as follows:
Audited balance sheets at December 31, 1979 and 1978;
Audited statements of income and changes in financial position for the years ended December 31, 1979, 1978 and 1977;
Balance sheet (which may be unaudited) as of an interim date not earlier than September 30, 1980; and
Unaudited statements of income and changes in financial position for the nine-month periods ended September 30, 1980 and 1979 (assuming that the interim balance sheet filed is as of September 30, 1980).

The same provisions for interim financial data are applicable to filings, other than on Form 10-K or Form 10, made after 45 days but within 90 days of the end of the registrant's fiscal year provided the registrant meets the following conditions:

• The registrant files annual, quarterly and other reports pursuant to section 13 or 15(d) of the Exchange Act and all reports due have been filed;

• For the most recent fiscal year for which audited financial statements are not yet available, the registrant "reasonably and in good faith" expects to report income before extraordinary items and cumulative effect of a change in accounting principle; and

• For at least one of the two fiscal years immediately preceding the most recent fiscal year, the registrant reported income before extraordinary items and cumulative effect of a change in accounting principle.

○ The adopted rules parallel the interim reporting requirements under the Exchange Act. A potential investor in securities already registered and traded in the open market, for instance, wishing to make an
investment decision on March 1, may only have available for a calendar year enterprise, the audited financial statements for the two years preceding the year most recently completed and unaudited interim data on a condensed basis through the end of the third quarter of the most recent year (as filed on Form 10-Q). Under the adopted rules, the same level of disclosure will be available to the investor considering an investment in shares being offered on March 1.

For filings where the registrant does not meet the above conditions, audited financial statements for the most recently completed fiscal year must be included in the registration statement.

○ The SEC has concluded that, when an enterprise is either a new registrant or is a registrant with unprofitable operations and is attempting to raise capital in the market place after 45 days but before 90 days after the end of the most recent fiscal year, it is reasonable to delay registration until audited financial statements become available. The SEC noted in the adopting release that it will continue to offer waivers to its rules where unusual circumstances dictate the need for them.

Age of Financial Statements for Filings After 134 Days of Year-End.
When a registration statement is filed after 134 days subsequent to the end of a registrant’s fiscal year, an additional balance sheet is required as of an interim date within 135 days of the date of filing but as of a date at least as current as the date of the most recent quarterly data filed with the SEC on Form 10-Q. Also, statements of income and changes in financial position are required for the interim period between the date of the most recent audited balance sheet and the date of the most recent interim balance sheet being filed, and for the corresponding period of the preceding fiscal year.

○ The SEC thus has made the 135-day rule applicable to all registrants filing registration statements after 90 days subsequent to the end of the most recent fiscal year.

Age at Effective Date. The adopted requirements concerning financial statement updating, that focus on the age of financial statements at the effective date of a registration statement or the proposed mailing date (in the case of a proxy statement), parallel the requirements at the filing date as described above.

Where financial statements in a filing are as of a date 135 days or more prior to the date the filing is expected to become effective or proposed mailing date (in the case of a proxy statement), the rules require the
financial statements to be updated with a balance sheet as of an interim
date within 135 days and with statements of income and changes in
financial position for the interim period between the end of the most
recent fiscal year and the date of the interim balance sheet provided, and
for the corresponding period of the preceding fiscal year.

Two exceptions to this rule have been provided:

First, where the registrant meets the conditions described above and the
anticipated effective date or proposed mailing date (in the case of a proxy
statement) falls after 45 days but within 90 days of the end of the fiscal
year, the filing need not be updated with financial statements more
current than as of the end of the third fiscal quarter of the most recently
completed fiscal year, provided audited financial statements for such
fiscal year are not available.

Second, where the registrant does not meet the prescribed conditions
referred to above and the anticipated effective date or proposed mailing
date falls after 45 days but within 90 days of the end of the fiscal year,
the filing is to include the audited financial statements for the most
recent fiscal year.

Both of these exceptions are consistent with the adopted rules
governing financial statements as of the date of filing. In addition, the
updating rules include a general provision that, if a filing is made near the
end of a fiscal year and the audited financial statements for that fiscal
year are not included in the original filing, the filing is to be updated with
such audited financial statements if they become available prior to the
anticipated effective date or the proposed mailing date (in the case of a
proxy statement).

In the adopting release, the SEC recognized that many foreign private
issuers will have difficulty complying with the provisions adopted. The
SEC has indicated that it is considering the feasibility of developing an
integrated disclosure system for foreign issuers and will consider the
development of specific rules concerning the age and content of
financial statements for foreign issuers in the context of that project.

In the interim, the SEC staff will consider, as it has in the past,
requests for waivers of certain requirements of Regulation S-X that
may be inappropriate for foreign issuers. Waiver requests regarding
the age of financial statements in a firm commitment underwriting
offering have, in the past, been granted by the SEC if the registrant
presented financial statements at least as current as six months prior
to the effectiveness of the registration statement.
As a consequence of adopting these rules for updating financial statements, Guide 23, "Current Financial Statements and Related Data," under the Securities Act has been rescinded.

**Form and Content of Interim Data.** The SEC adopted amendments that conform the requirements as to form and content of interim financial data under the Securities Act with the related existing requirements of Form 10-Q under the Exchange Act. The rules adopted eliminate the requirement to include, in registration statements, complete financial statements and schedules for interim periods. Further, the rules eliminate interim period requirements for financial statements of separate entities such as parent company only, unconsolidated subsidiaries or 50 percent or less owned persons. The form and content of financial statements for interim periods included in registration statements must, as a minimum, comply with rules that conform with requirements for such data under Form 10-Q.

The amendments adopted differ from those proposed to the extent that complete conformity with the form and content provisions under Form 10-Q has been adopted. The SEC notes in its adopting release, however, that this should not be construed as representing a determination by the SEC that separate financial statements of the entities referred to above may not be required for interim periods at some future point in time (see "Future Initiatives").

**Instructions as to Financial Statements Centralized in Regulation S-X.** The adopted amendments remove substantially all instructions as to financial statements from the various registration and reporting forms and place them in a centralized set of revised instructions in a new Article 3 of Regulation S-X. The SEC's existing rules covering (i) omission of registrant's financial statements in certain cases, (ii) past successions to other businesses, (iii) future successions to other businesses, and (iv) financial statements of subsidiaries not consolidated and 50 percent or less owned persons, remain unchanged, and also have been relocated in new Article 3 of Regulation S-X.

In new Rule 3-13, the SEC indicates that it "may, upon the informal written request of the registrant, and where consistent with the protection of investors, permit the omission of one or more of the financial statements herein required or the filing in substitution therefor of appropriate statements of comparable character. The Commission may also by informal written notice require the filing of other financial statements in addition to, or in substitution for, the statements herein required in any case where such statements are
necessary or appropriate for an adequate presentation of the financial
condition of any person whose financial statements are required, or
whose statements are otherwise necessary for the protection of
investors.”

Effective Date. The amendments are effective for fiscal years ending
after December 15, 1980, although early implementation is encouraged.

General Revision of Regulation S-X. The SEC adopted a general
revision of Articles 3, 5 and 12 of Regulation S-X, which provide the
financial statement and disclosure requirements for most registrants
(other than investment companies, insurance companies, bank holding
companies and banks). Intended to bring about uniformity between
financial statements included in annual reports to shareholders and those
prepared in accordance with Regulation S-X, the changes:

• Eliminate rules that duplicated generally accepted accounting
  principles ("GAAP");

• Modify certain rules to recognize predominant current practice and
  changes in circumstances;

• Clarify certain requirements that have been subject to differing
  interpretations; and

• Expand certain requirements to improve financial reporting.

  Registrants subject to Articles 6, 7, 7A and 9 of Regulation S-X
  (investment companies, insurance companies, bank holding
  companies and banks) may deviate from strict compliance with
  Regulation S-X in their annual reports to shareholders (as permitted by
  the proxy rules) until those Articles have been revised. The SEC
  indicated that it expects to complete the revision of these Articles
  within the next year.

Relationship with the Financial Accounting Standards Board. In
the adopting release, the SEC reiterated its support of the FASB as the
leader in the establishment and improvement of accounting principles.
Some commentators had indicated to the SEC that mandating
Regulation S-X requirements in annual reports to shareholders conflicts
with the SEC's stated policy regarding the FASB outlined in Accounting
Series Release No. 150. In response, the SEC noted in the adopting
release that:
The Commission does not believe that any decision to require particular disclosures or, less likely, a decision to require a particular method of accounting through rulemaking in Regulation S-X, conflicts with the basic policy of relying on the FASB for leadership in establishing financial accounting and reporting standards. Furthermore, it believes that the remaining requirements of Regulation S-X address those areas where GAAP standards are not explicit and there is a need for an authoritative source for such requirements. While there is, of course, always the possibility that the Commission may conclude it cannot accept an FASB standard in a particular area, such events have been rare. The Commission intends to continue its present policy of carefully re-evaluating its rules as the FASB effectuates changes in financial accounting and reporting standards, and will eliminate those rules which become unnecessary. For example, as standards are issued by the FASB regarding “Funds Flows and Liquidity”, “Reporting Earnings” and other phases of the conceptual framework project, the Commission expects it will be able to defer to the requirements of the private sector. The Commission believes that the action which it currently is taking is in harmony with its statement of policy pronounced in ASR No. 150.

**Significant Provisions of Release.** Among the significant provisions are the following:

- Explicit requirement to follow GAAP in preparing financial statements filed with the SEC; for foreign private issuers filing on any form other than Form 20-F, foreign accounting principles may be followed provided that they are reconciled to U.S. GAAP and the provisions of Regulation S-X;
- A new requirement to disclose the domestic and foreign components of income before income tax expense;
- Adoption of disclosure requirements on related party transactions, principally as provided by existing auditing literature;
- Flexibility in manner of disclosing certain balance sheet information either on the face of the balance sheet or in the accompanying notes (e.g., valuation accounts and individual components of accounts combined for financial statement purposes) and the elimination of the proposed requirement for financial statement note references;
- Relocation of information on short-term borrowings to the supplemental schedules or, if appropriate and pertinent to a discussion of liquidity and capital resources, the management discussion and analysis;
- Continuation of the disclosure of certain supplementary income statement information in a schedule;
- Relocation of certain information to the supplementary financial data section;
• Withdrawal of the proposed expanded schedule requirements for property, plant and equipment (it was noted, however, that future amendments may be proposed);

• Expansion of disclosure requirements concerning restrictions limiting the availability of retained earnings or net income for dividend purposes;

• Optional presentation of earnings applicable to common stock; and

• Amendment of the financial accounting and reporting rules for oil and gas producing activities.

Appendix C provides a comparison of existing requirements with new requirements of Regulation S-X.

**Explicit Requirement to Follow GAAP.** Rule 4.01(a) as adopted contains an explicit requirement that financial statements filed with the SEC, which are not prepared in accordance with GAAP, will be presumed to be misleading or inaccurate, unless the SEC has provided otherwise. Additionally, this rule provides that financial statements of foreign private issuers filed with the SEC, on any form other than Form 20-F, may be prepared according to foreign accounting principles, provided that a reconciliation to U.S. GAAP and the provisions of Regulation S-X is also filed as part of the financial statements.

○ This rule as it relates to foreign private issuers represents the formalization of the administrative policy followed by the SEC presently.

**Income Tax Expense.** The SEC withdrew its proposed expanded income tax reconciliation, except for the requirement to disclose the domestic and foreign components of income before income taxes. The adopted rules are based primarily on the disclosure requirements of Accounting Series Release No. 149. However, the SEC did decide to delete the requirement for disclosing future cash outlays for income taxes that are anticipated to substantially exceed income tax expense. The SEC indicated that, although not explicitly required, this type of information should be provided, where relevant, in the liquidity section of management discussion and analysis.

○ Amounts applicable to foreign income which are less than five percent of the total of income before income taxes need not be separately disclosed.
Related Party Transactions. The following disclosure requirements for related party transactions were adopted in Regulation S-X:

(1) The financial statements filed shall disclose transactions with, investments in, and balances due to or from related parties that are material, individually or in the aggregate. This disclosure should include the following:

(i) The nature of the relationship(s);
(ii) A description of the transactions (summarized when appropriate) for the periods for which an income statement is presented, including amounts, if any, and such other information as is deemed necessary to an understanding of the effects on the financial statements;
(iii) The dollar volume of transactions and the effects of any change in the method of establishing terms from that used in the preceding period;
(iv) Amounts due to or from related parties and, if not otherwise apparent, the terms and manner of settlement; and
(v) Amount of investments in related parties.

(2) In cases where separate financial statements are presented for the registrant, certain investees, or subsidiaries, separate disclosure shall be made in such statements of the amounts in the related consolidated financial statements which are (i) eliminated and (ii) not eliminated. Also, any intercompany profits or losses resulting from transactions with related parties and not eliminated and the effects thereof shall be disclosed.

(3) Disclosure should be made on the face of the balance sheet, income statement, or statement of changes in financial position of any material related party receivable or payable; revenue, expense, gain or loss; or cash flows, respectively. Relevant details regarding these amounts should be provided in the notes.

(4) With respect to the classification of current amounts due from or to related parties, consideration should be given to the intent and the financial position of such related parties in determining whether such amounts should be classified as current or long-term.

○ The first section of this rule was taken from the auditing literature, Statement on Auditing Standards No. 6, “Related Party Transactions.” In its adopting release, the SEC noted that SAS No. 6 applies to audited financial statements only and not unaudited financial statements, which would be covered by the adopted rule.
The SEC further noted that an AICPA task force is currently studying this issue and that if comprehensive requirements for related party transactions are developed by the FASB in the future, the SEC would re-examine the need for its requirements in this area.

**Flexibility in Manner of Disclosing Certain Balance Sheet Information and Elimination of Proposed Requirement for Financial Statement Note References.** In response to the SEC's rule proposals, many commentators suggested that registrants be provided a greater degree of flexibility to determine whether certain information should be disclosed on the face of the balance sheet or in the accompanying notes. The SEC concluded that greater flexibility is appropriate and adopted rules that require separate disclosure of the following items either on the face of the balance sheet or in an appropriately captioned note:

- Notes receivable when in the aggregate they exceed 10 percent of total accounts and notes receivable;
- Allowances for doubtful accounts and notes receivable;
- The individual components of other current assets that exceed five percent of total current assets;
- Accumulated depreciation, depletion and amortization of property, plant and equipment;
- Accumulated depreciation and amortization of intangible assets;
- The individual components of other assets that exceed five percent of total assets;
- Amounts payable to (i) banks for borrowings, (ii) factors or other financial institutions for borrowings, and (iii) holders of commercial paper;
- The individual components of other current liabilities that exceed five percent of total current liabilities; and
- The individual components of other liabilities that exceed five percent of total liabilities.

Additionally, the SEC, while acknowledging the value of note references, withdrew its proposed requirement for presenting note references on the face of the financial statements. This was in response to the commentators who indicated that in certain instances cross-references may impair readability or clutter the financial statements.
Relocation of Short-Term Borrowings Information to a Supplemental Schedule. The SEC noted that commentators had indicated that certain of the detailed information concerning short-term borrowings required under the SEC's existing rules may not be of interest to the majority of users of financial statements. In response to these comments, the SEC relocated certain of its existing disclosure requirements on short-term borrowings to a newly adopted schedule, "Short-Term Borrowings." This schedule is required by Rule 5-04, Schedule IX, to provide information about current amounts payable to banks for borrowings; factors and financial institutions for borrowings; and holders of commercial paper. The information required for each of these categories includes the balance outstanding at the end of the period and related weighted average interest rate, the maximum amount outstanding at any month end during the period, and the average amount outstanding during the period and related weighted average interest rate.

- The information concerning short-term borrowings may be included in management discussion and analysis instead of in a schedule if it results in a more meaningful presentation of the information being provided.

The SEC also concluded that information concerning unused lines of credit is meaningful to the majority of users of financial statements and should continue to be disclosed in the financial statements.

Supplementary Income Statement Information. In the adopting release, the SEC noted that since the FASB project, "Reporting Earnings," is expected to address the issues underlying the need for this type of information and since material changes in the components of expense items are required to be discussed in the revised management discussion and analysis, this disclosure can be continued to be furnished in a schedule. (The SEC had proposed that this information be moved to the footnotes.)

Relocation of Certain Information to the Supplementary Financial Data Section. Disclosure requirements concerning disagreements on accounting and financial disclosure matters and selected quarterly financial data have been relocated to Item 12 of Regulation S-K. Additionally, the substance of Rule 2.02(e) concerning the accountants’ association with unaudited quarterly financial data has been transferred to Regulation S-K.
Proposed Expansion of the Property, Plant and Equipment Schedule. The SEC decided to reconsider the proposed expansion of the property, plant and equipment schedule and stated that it may re-expose a rule addressing this schedule in the near future. Accordingly, the property, plant and equipment schedule remains unchanged, except for a requirement to disclose the methods and, if practicable, rates used to compute annual depreciation charges in the income statement — requirements which were previously included in the rules of general application.

Restrictions Which Limit the Availability of Retained Earnings or Net Income for Dividend Purposes. The SEC adopted amendments that require enterprises to:

(1) Describe the most significant restrictions, other than a restriction on retained earnings that arises from the fact that upon involuntary liquidation the aggregate preferences of the preferred shares exceed the par or stated value of such shares, on the payment of dividends by the issuer, indicating briefly their sources, their pertinent provisions, and, where appropriate and determinable, the amount of retained earnings or net income (i) so restricted or (ii) free of such restrictions;

(2) Describe the most significant restrictions on the payment of dividends by consolidated subsidiaries to the issuer, indicating briefly their sources, their pertinent provisions, and, where determinable, the amount of retained earnings or net income (i) so restricted or (ii) free of such restrictions; and

(3) Disclose separately the amount of retained earnings of the issuer which represents undistributed earnings of unconsolidated subsidiaries and 50 percent or less owned persons. With respect to the undistributed earnings of unconsolidated subsidiaries, describe the most significant restrictions on the payment of dividends by the unconsolidated subsidiaries to the issuer, indicating briefly their sources, their pertinent provisions, and, where determinable, the amount (i) so restricted or (ii) free of such restrictions.

Earnings Applicable to Common Stock. The proposed rule would have required registrants to present on the face of the income statement earnings applicable to common stock — a requirement previously contained in the summary of operations that has been deleted. The SEC decided not to mandate presentation of this information, although it expressed the view that disclosure of earnings applicable to common stock is of value in certain situations.
Amendment of the Financial Accounting and Reporting Rules for Oil and Gas Producing Activities. The following technical amendment was made to Rule 4.10(k)(5) to include an additional instruction already contained in Regulation S-K as follows:

If any foreign government restricts the disclosure of estimated reserves for properties under its governmental authority, or amounts under long-term supply, purchase, or similar agreements, or if the foreign government requires the disclosure of reserves other than proved, the registrant should identify the country, cite the law or regulation which restricts or requires such disclosure, and indicate that the reported reserve estimates or amounts do not include figures for the named country or that reserve estimates include reserves other than proved.

Deletion of Certain Regulation S-X Requirements. Certain rules have been deleted under the revised Regulation S-X because they either duplicate disclosure requirements under existing GAAP or are no longer necessary because of changes in circumstances. These deleted rules include disclosures regarding the following matters:

- Omission of names of certain subsidiaries — however, a list of significant subsidiaries is required as an exhibit in Form 10-K;
- Changes in accounting principles and practices and retroactive adjustments of accounts;
- Summary of accounting principles and practices;
- Basis of determining amounts — book value;
- Reacquired shares; and
- Notes to financial statements concerning:
  - Principles of translation of items in foreign currencies;
  - Pension and retirement plans;
  - Commitments and contingent liabilities;
  - Bonus, profit sharing and other similar plans;
  - Bases of revenue recognition; and
  - Capital stock optioned, sold or offered for sale to directors, officers and key employees.

Renumbering of Certain Articles and Rules. As discussed earlier, concurrent with the general revision of Regulation S-X, the SEC adopted uniform financial statement instructions for most registration and reporting forms and annual reports to shareholders. To achieve a logical sequence, these instructions are included in revised Article 3 which also
contains without change the requirements for consolidated and combined financial statements (formerly Article 4). The rules of general application, formerly Article 3, now constitute Article 4. Some rules have been relocated within revised Articles 4, 5 and 12 to enhance their simplicity and readability. Coupled with the deletion of certain rules and the combination of others, this accounts for the renumbering of the rules under the revised Articles.

**Effective Date.** The amendments to Regulation S-X are effective for fiscal years ending after December 15, 1980, although earlier implementation is encouraged.

**New Form S-15.** Form S-15 is an experimental, optional form that is intended to simplify the registration of securities under the Securities Act by mandating delivery to shareholders of an abbreviated prospectus together with the issuer's latest annual report to shareholders. Although the form is not specifically limited to a maximum number of offerees, the SEC anticipates the use of the form will be most appropriate in situations where the number of offerees is relatively small so that the delivery of an annual report would not involve unusual effort and expense, thus making this method of registration more attractive than those presently available.

- Form S-15 is an optional form; Forms S-1 and S-14 are still available should an issuer who qualifies to use Form S-15 nevertheless prefer not to deliver its annual report but rather include substantially equivalent information, plus other information, in the prospectus.

**Availability of Form S-15.** The use of Form S-15 is available for the following types of transactions:

- Transactions of the character specified in Rule 145(a) — For example, reclassifications (i.e., offers to substitute one security for another), mergers or consolidations and acquisitions of assets;
- "Short-form mergers"; and
- An exchange offer for the acquisition of a number of shares which when added to shares already held is at least 50% of the class of securities to be acquired.

The transaction contemplated must meet all of the following conditions:

- Gross sales and operating revenues, net income, total assets and total shareholders' equity of the issuer must not change by more than 10% on a combined pro forma basis as a result of the transaction.
Additionally, the total purchase price of the enterprise being acquired must not exceed 10% of the issuer’s total assets as of the end of the latest fiscal year for which a Form 10-K has been filed. The intent of this condition is to restrict the form's use to transactions where relatively small enterprises are acquired by substantially larger enterprises;

- The issuer must meet the requirements for use of Form S-7 and have furnished its latest annual report to shareholders. (The proposal had required delivery of the annual report to shareholders for the latest fiscal year);

- The transaction must be approved or recommended by the boards of directors of both parties as of the date of effectiveness of the registration statement;

- The prospectus must be delivered to shareholders at least 20 days prior to the meeting date or the date of vote, consent or authorization or the date the transaction is consummated; and

- Neither the issuer nor the enterprise being acquired can be a registered investment company.

- Except for adding a few types of situations — resales and enterprises engaged in oil and gas operations — the availability of Form S-15 as adopted was not expanded from that proposed. In the adopting release, the SEC noted that it may subsequently ease some of the restrictions on Form S-15 availability, based on experience with the form’s use and effects, and particularly at such time as the SEC staff has had the opportunity to develop an appropriate disclosure requirement with respect to pro forma financial information.

- Form S-15 will be available for reoffers or resales, if (i) the additional information called for is provided in the prospectus, (ii) the selling shareholders have an intent to make such offers and sales within 16 months, and (iii) the prospectus used is updated in accordance with Section 10(a)(3) of the Securities Act.

**Experimental Nature of Form S-15.** Simultaneous with the adoption of new Form S-15, the SEC proposed a comprehensive revision to its system for registration of securities offerings (see “Proposed Registration Forms A, B and C”). The proposed forms, particularly proposed Form B, raise a number of issues that are not resolved. These issues include (i) whether delivery of the annual report to shareholders with the prospectus should be mandatory or optional, (ii) which documents should be incorporated by reference into prospectuses, (iii) for what transactions
are abbreviated prospectuses appropriate, and (iv) how to ensure equivalent disclosure when issuers have the option of prospectus presentation or annual report delivery. The SEC, rather than delaying adoption of Form S-15 until such time as all issues associated with its integration program are resolved, adopted Form S-15 as an experiment. The experience with Form S-15 and its mandatory use of the issuer's annual report to shareholders are expected to provide the SEC with empirical data as to its operation and usage that will be considered in evaluating proposed Form B, which as proposed would provide issuers with the option of either delivering the annual shareholder report or providing equivalent disclosure in the prospectus.

**Information Required by Form S-15.** Form S-15 requires the issuer's latest annual report to shareholders to be delivered with the prospectus. The issuer's business description, financial statements, industry segment information, market information with respect to its common stock, selected financial data, and management discussion and analysis will be incorporated by reference from the annual report to shareholders rather than being presented in the prospectus. The prospectus will contain only disclosure with respect to:

- The transaction pursuant to which the securities are being offered;
- The enterprise being acquired; and
- Any additional information about the issuer necessary to update disclosures in the annual report to shareholders delivered with the prospectus.

○ The issuer has the option of delivering the annual report to shareholders of the enterprise being acquired (if it is registered under Section 12 of the Exchange Act) with the prospectus and the issuer's annual report. If that option is elected, the prospectus will contain the same disclosure with respect to the enterprise being acquired as with respect to the issuer — i.e., disclosures with respect to subsequent events and interim financial information. Unlike the case for the issuer, the annual report which could be used is that for the latest fiscal year, not the latest report furnished.

The structure of new Form S-15 is as follows:

Part I. Information Required in the Prospectus.

Item 1. Summarized information about the business of the enterprises, the transaction at hand and comparative per share data,
adjusted to be presented on an equivalent share basis of the issuer and the enterprise being acquired, for the following items:

- Book value per share;
- Cash dividends declared per share;
- Net earnings per share; and
- Market value of securities as of the day preceding public announcement of the proposed transaction or, if no such public announcement was made, as of the day preceding the day the agreement with respect to the transaction was entered into.

Item 2. Terms of the transaction. Included herein would be a brief outline of the material features of the transaction, the reasons of the enterprise being acquired for engaging in the transaction and a description of any restrictions on the issuer's present or future ability to pay dividends. (A brief summary of the principal terms of an acquisition agreement is all that is required.)

Item 3. A description of the enterprise to be acquired including a description of the business, market information for common stock, selected financial data, management discussion and analysis, financial statements and supplementary financial information and interim financial information.

- The balance sheet for the year preceding the latest full fiscal year and the income statements for the two years preceding the latest full fiscal year need not be audited if they have not previously been audited.

- Additionally, existing financial statement waiver procedures used in the Form S-14 context will be operative in the Form S-15 context as well.

Item 4. Certain proxy information.

Item 5. Information about interests of affiliates in the transaction.

Item 6. Information about the issuer as to interim financial information, subsequent material changes in financial results of the issuer and availability of reports, and other information.

Item 7. Information concerning the enterprise being acquired similar to that contained in Item 6.

- Item 6 calls for financial and other information as of the end of the most recent fiscal quarter for which a Form 10-Q has been filed.
The information is to be in the form required by Part I of Form 10-Q but may be provided by any one of three means: (i) inclusion in the prospectus, (ii) delivery of the Form 10-Q with the prospectus and annual report, or (iii) delivery with the prospectus and annual report of the issuer’s latest quarterly report to shareholders if that report contains the required information. Similar provisions apply to the enterprise being acquired.

Item 8. Additional information if prospectus is to be used for reoffers or resales.

Item 9. Statement as to material incorporated by reference (a detailed listing of items incorporated by reference is to be included either in the prospectus or in Part II, Item 11).

Part II. Information Not Required in Prospectus; Undertakings.

Item 10. Undertaking to transmit certain material.

Item 11. Incorporation of certain information by reference.

Item 12. Undertaking to file prospectuses as amendments.

Item 13. Interest of experts named in registration statement.

Item 14. Exhibits.

**Effective Date.** The effective date of Form S-15 is 30 days after publication in the Federal Register, although use prior to that date is permissible if all applicable provisions of the form are complied with. Form S-15 is also available for use prior to the effective date of implementation of revised annual report requirements (fiscal years ending after December 15, 1980), if all other conditions for the use of the form have been met. The annual report prepared prior to the adoption of revised regulations can be supplied to shareholders to satisfy the financial statement requirements of Form S-15 during this interim period.

- In the adopting release, the SEC acknowledged the different levels of required disclosure in annual reports to shareholders, before and after the December 15, 1980 effective date for the adopted changes in annual reports. However, the SEC noted that it has decided to make Form S-15 available immediately so as not to delay the experimental use of annual reports to shareholders in a Securities Act context.
Rule Proposals

Proposed Registration Forms A, B and C. As part of its effort to integrate reporting requirements under the Securities Act, the SEC has released for comment three proposed new forms (Forms A, B and C for proposal purposes) to be used to register offerings of securities. The three new forms would constitute the basic disclosure document format necessary for the registration of securities under the Securities Act. The three proposed forms are designed to address two basic issues — identifying the necessary information package in the context of public offerings of securities and determining how and to whom such information should be made available. The proposed system addresses these issues by dividing issuers into three classes, each having a different level of disclosure requirements. The classification of the issuer, which determines the extent of information required to be presented, is based on such factors as the period of time an enterprise has reported under the Exchange Act, dissemination and professional analysis of public information and financial stability. The class or category to which an issuer belongs would determine what information would be required to be presented in the prospectus or otherwise delivered to potential investors, and what already-disseminated information could be relied on, by incorporation by reference, in place of actual delivery in or with the prospectus.

- The SEC notes that the concept of integration involves a conclusion as to equivalency between transactional (Securities Act) and periodic (Exchange Act) reporting. If a subject matter is material information (other than a description of the transaction itself), then it will be material both to the distribution of securities and to the trading markets. The SEC further states that the concept of integration also encompasses the observation that information is regularly being furnished to the market through periodic reports under the Exchange Act. This information is evaluated by professional analysts and other sophisticated users, is available to the financial press and is obtainable by any other person who seeks it at nominal or no cost. To the extent that the market acts efficiently, and this information is adequately reflected in the price of a registrant's outstanding securities, the SEC concludes there seems little need to reiterate this information in a prospectus in the context of a distribution.

Forms A, B and C are designed to work as a coordinated system using standard requirements wherever possible. Form A is analogous to Form S-16 and is to be used by enterprises widely followed by the market. Form A would require minimal prospectus disclosure and would primarily
entail incorporation by reference of data already available and digested by
the market place. Form B is to be used by a middle tier of enterprises,
who do not meet all of the requirements for use of Form A but meet
certain criteria for longevity of reporting and financial stability. Form B
relies on Form A for much of its content with the major difference being
that Form B contains the option either that the issuer’s annual report to
shareholders be delivered with the prospectus or that substantially
equivalent disclosure be presented in the prospectus. Form C is to be
used by enterprises not qualifying for use of Forms A and B and is a
streamlined Form S-1 providing for minimal incorporation by reference.
The SEC believes that Forms A, B and C overlap with Forms S-1, S-2,
S-7 and S-16 and accordingly is proposing the rescission of these existing
forms.

**Form A.** Form A would be available to enterprises widely followed by
the market place who have a consistent record of financial stability. The
following conditions must be met to use Form A:

- The issuer has a class of securities registered pursuant to Section 12
  of the Exchange Act or is required to file reports pursuant to Section
  15(d) of the Exchange Act;

- The issuer has been subject to the requirements of those Sections,
  has filed all applicable reports for 36 months prior to filing the
  registration statement, has timely filed all required reports for the 12
  months preceding the filing of the registration statement and, if
  subject only to Section 15(d), has sent shareholders a report
  containing the required disclosure;

- The issuer and its subsidiaries have not failed to pay a dividend or
  sinking fund installment on preferred stock or had a payment default
  on material indebtedness or on a material long-term lease within the
  past 36 months; and

- The issuer has had consolidated net income of at least $250,000 for
  three of the last four years, including the most recent year.

- In addition, like existing Form S-16, if proposed Form A is to be used
  for primary offerings of debt or equity securities to be offered for cash,
  the issuer must also meet a “float” test (i.e., the aggregate market
  value of its voting stock held by non-affiliates must be at least
  $50,000,000).

**Transactions For Which Form A Is Available.** As proposed, Form A would
be available to qualified issuers for primary offerings either pursuant to a
firm underwriting commitment in which underwriters are committed to
take at least 90% of the offering, or pursuant to a best efforts underwriting on an "all or none" basis.

In addition, proposed Form A would also be available for use by qualified issuers to register convertible securities (i) to be offered upon the conversion of outstanding convertible securities or upon the exercise of outstanding transferable warrants (if the issuer has a $50 million non-affiliate float or if no commission is paid for soliciting the conversion or exercise), (ii) to be offered upon the exercise of outstanding rights granted by the issuer, (iii) to be offered pursuant to dividend or interest reinvestment plans, (iv) to be offered for the account of any person other than the issuer, including standby underwriters and affiliates, (v) to be offered by certain closed-end management investment companies, and (vi) to be offered by qualified foreign private issuers upon the exercise of outstanding rights.

○ The SEC has also proposed that foreign private enterprises be allowed to use Forms A and B if they file, on a voluntary basis, the same reports that domestic issuers file under the Exchange Act.

Form B. Form B would be available to a middle tier of public enterprises that do not meet all of the criteria for using Form A. The criteria for use of Form B are substantially the same as for Form A, except that:

- The issuer must have had earnings for two of the last three years, including the most recent year;
- The issuer does not have any of the following financial characteristics:
  A decline of more than 50% in income from continuing operations compared to the past year;
  Any material uncertainties relating to financial position or results of operations which are or will be accompanied by a "subject to" accountants' report; or
  A downgraded bond rating during the last twelve months.

○ The SEC indicated that the three characteristics listed above are indications of possible troubled situations; however, they are not intended to be definitive, but rather are intended to stimulate comments about whether criteria can be developed to identify troubled situations.

Option of Delivering the Annual Report to Shareholders. As indicated above, Form B allows the issuer the option of delivering a copy of its annual report to shareholders with the prospectus to satisfy disclosure requirements. Form B represents a policy choice to favor the readability that results from use of annual reports to shareholders rather than a prospectus providing more detailed and complex information. However,
because enterprises not eligible for use of Form A are by their nature not sufficiently followed by the market place, more disclosure may be required.

Comparison of Proposed Eligibility Requirements to Those of Form S-15. Proposed Form B eligibility requirements differ from existing Form S-15 in that (i) the issuer must have net income for two of the last three years (rather than net income of at least $250,000 for three of the last four years), including the most recent period, and (ii) the prohibition on defaults in payments on preferred stock, indebtedness and long-term leases has been somewhat modified. If Form B is adopted as proposed, the SEC has indicated that Form S-15 will be amended accordingly so that conformity in reporting would be attained if the issuer qualifies for the use of both Forms B and S-15.

Form C. Form C would be the basic long-form registration calling for the inclusion of all required Regulation S-K disclosures in the offering statement. The form would be available to all issuers who do not qualify or choose to use other registration forms. Registrants using Form C would be those who are "financially troubled," who have been in the reporting system less than three years, or who elect to use the form.

* The SEC has defined "financially troubled" as meeting any one of the three financial characteristics outlined under the discussion of Form B.

Under the proposed three-tier system, only Form C is contemplated to be used to register securities to be issued in an exchange offer for securities of another enterprise. (Of course, Form S-15 would be available for certain exchange offers.)

Disclosure Requirements. Forms A, B and C are designed to function as a coordinated reporting system. Appendix E presents in tabular form the proposed disclosure requirements for each form.

Request for Comments Made by SEC. The SEC has specifically invited comments with respect to several positions taken in the release proposing Forms A, B and C. Comments requested deal with the following matters:

* Eligibility Criteria for Use of Proposed Form A — Should such criteria be changed from those for existing Form S-16? Specifically, is the net income test of $250,000 too low? Is the "float" test (i.e., the aggregate market value of the issuer's voting stock held by non-affiliates) of $50,000,000 adequate to restrict use of Form A to qualified enterprises? If not, to what number should the "float" test be raised?
• **Use of Underwriters** — As previously indicated, Form A is proposed to be used in primary offerings either pursuant to a firm underwriting commitment where the underwriter is committed to take at least 90% of the offering or pursuant to an underwriting on an “all or none” basis. The SEC has invited specific comment with respect to this position, particularly as to whether proposed Form A should be (i) limited to firm underwriting commitment primary offerings, (ii) available as proposed, (iii) available for all underwritten offerings, regardless of the type of best efforts arrangement involved, or (iv) available to qualified issuers regardless of whether the offering is underwritten at all.

• **Timing for Effective Date of Registration Statements Covering Dividend or Interest Reinvestment Plans** — The SEC is considering allowing registration of securities issued pursuant to such plans to become effective automatically 20 days after filing and has asked for comments on such consideration.

• **Criteria Indicating “Financially Troubled” Situations** — Three criteria have been proposed in Form B as being possibly indicative of “financially troubled” situations. Comments are requested as to whether the three criteria outlined above are appropriate and whether other criteria can be developed.

• **Registrations Involving Acquisition of Another Enterprise** — Under the three-tier system proposed, only Form C is contemplated to be used to register securities to be issued in an exchange offer for securities involving acquisition of another enterprise. Comment is specifically invited as to (i) whether either proposed Form A or proposed Form B, or both, should also be so available, and (ii) what level of prospectus disclosure with respect to the target enterprise is appropriate where a Form C issuer is exchanging its shares for those of an enterprise qualified to use proposed Form A or B.

• **Use of Form A When Regulation S-X Rules 3-07 or 3-08 Are Applicable** — Rules 3-07 and 3-08 dealing with past and future successions to other businesses, respectively, call for the inclusion of certain historical financial statement data when significant acquisitions have been made by the issuer. Form A as proposed requires the issuer to provide this information as well as the historical financial statements of the issuer and its consolidated subsidiaries in the prospectus whenever this situation occurs. The SEC requested comments as to whether in those circumstances where Rules 3-07 or 3-08 are applicable, an issuer should be required to use proposed Form B or C.
• **Integrated Disclosure Systems for Foreign Issuers** – The SEC has requested comments on matters it should consider in developing such a system and has made specific inquiries as to the following:

  Whether the proposed integration system for domestic issuers should apply to foreign private issuers reporting on Form 20-F, including, but not limited to, the criteria for the eligibility of such issuers to use Forms A and B. Additionally, comments are requested as to whether a separate classification and form(s) should be developed for foreign private issuers;

  Whether its rules and forms should maintain the present distinction made between North American issuers and all other foreign private issuers and, if not, whether any other distinctions should be made or whether private issuers from all foreign countries should be able to use the same forms;

  Whether foreign laws impede or restrict the information that can be filed with the SEC;

  Whether the investors in foreign securities significantly differ in composition from those investing in the securities of U.S. issuers and, if such differences exist, whether there are any ramifications for the requirements relating to the disclosure and dissemination of information regarding foreign issuers; and

  How important is the information contained in a Form S-1 registration statement that is not in a filing on Form 20-F?

• **Items Included in the Summary of Financial Information** – As proposed, this section would encompass the new selected financial data section plus information concerning net income and net income per share for five fiscal years and any applicable interim periods. The SEC has asked for comments with regard to any other important financial data (e.g., gross profit margin) that should be considered for inclusion in the summary.

• **Capitalization Table** – A capitalization table has not been included in the proposed forms and the SEC has asked for comment as to whether a table of capital structure should be required.

• **Audit Committees** – The SEC refers to its existing proxy rules requiring disclosure of the existence, composition, the functions performed and the number of meetings held by audit committees and specifically requests comment on whether the same, or some similar, disclosure should be required in Forms A, B and C. Comment also is requested on whether this disclosure requirement should be limited to first-time issuers.
Comment Period. Comments on proposed Forms A, B and C should be received by the SEC on or before January 15, 1981.

Proposed Amendments to Form 10-Q. The SEC has proposed amendments to Form 10-Q, the quarterly reporting form required of most public enterprises under the Exchange Act. The proposed Form 10-Q has been designed to be consistent with newly adopted Form 10-K. Additionally, the SEC encouraged the practice of sending quarterly reports to shareholders by emphasizing that issuers have the option of incorporating their quarterly shareholder communications into Form 10-Q, if such reports contain the required disclosures of the form. Among the significant proposed amendments to Form 10-Q are the following:

- Clarification of interim disclosure rules;
- Revision of reporting where reference is made to a review of interim financial information by independent public accountants;
- Expansion of management discussion and analysis of interim financial information; and
- Centralization of a uniform set of instructions for interim financial statements in Regulation S-X.

Clarification of Interim Disclosure Rules. The SEC is proposing to revise the instruction regarding footnote disclosure accompanying interim financial statements. The revised instruction would make it clear that certain disclosures are required to supplement the interim financial statements. The following guidelines are proposed:

- The adequacy of additional disclosures needed for a fair presentation of condensed interim financial information, except for material uncertainties, may be determined on the assumption that users of the Form 10-Q have read or have access to the latest annual report to shareholders;
- Material uncertainties or contingencies should be disclosed even though a significant change since year end may not have occurred;
- Disclosure should be provided where events or circumstances subsequent to the end of the most recent fiscal year have occurred which have a material impact on the registrant; and
- Disclosures could be made either on the face of the financial statements, in accompanying notes, or in management discussion and analysis.
Revision of Reporting Where Reference Is Made to a Review of Interim Financial Information by Independent Public Accountants.

Under the present rule, where the registrant states that independent public accountants have performed a review of the interim financial data, the registrant is required to state whether adjustments and disclosures proposed by the accountants have been made and if not, why not. In addition, a report from the accountants may be filed as an exhibit. The proposed amendments would require the inclusion of such report from the accountants and delete the requirement for a statement by the registrant regarding adjustments and disclosures.

- Auditing literature now requires a statement in the independent accountants’ report as to whether they are aware of any material modifications that should be made to the interim financial information so that it conforms with generally accepted accounting principles. In the proposing release, the SEC indicates that this expression of limited assurance may have rendered unnecessary the present Form 10-Q requirement for a statement by the registrant regarding adjustments and disclosures proposed by the independent accountants.

Expansion of Management Discussion and Analysis of Interim Financial Information. The proposed amendments to management discussion and analysis of interim financial information, which is an amendment to Item 11 of Regulation S-K, focuses the management discussion and analysis on the financial statements as a whole. The proposed requirement would supplement the analysis that is required in Form 10-K. Specifically:

- Management would be required to update the discussion and analysis in the annual report and address material changes not only in results of operations but also in financial condition;
- The broad guidelines adopted for annual reports would apply in determining the items requiring discussion;
- Discussion would be required of material changes in financial condition by comparing financial condition at the end of the most recent interim period for which financial statements are presented with financial condition at the end of the preceding fiscal year. If financial statements are presented as of the end of the corresponding interim period in the preceding fiscal year, a comparison should also be made with financial condition at the end of such interim period. If both the comparisons with the prior year end and the prior interim period are required, the discussion and analysis may be combined at the discretion of the registrant.
• Discussion would also be required of any material changes in the registrant’s results of operations with respect to the most recent fiscal year-to-date period for which financial statements are presented and the corresponding year-to-date period in the preceding fiscal year. If the registrant is required to or has elected to present financial statements for the most recent fiscal quarter, such discussion also should cover material changes with respect to that fiscal quarter and the corresponding fiscal quarter in the preceding fiscal year.

• If the registrant has elected to provide financial statements for the twelve month period ending at the end of the most recent interim period for which financial statements have been presented, the discussion also should cover material changes with respect to that twelve-month period ending at the end of the corresponding interim period in the preceding fiscal year.

○ The current requirement to discuss the immediately preceding quarter has been proposed for deletion.

• The registrant would be required to discuss any seasonal aspects of its business that have had a material effect on its financial condition or results of operations.

Centralization of a Uniform Set of Instructions for Interim Financial Statements in Regulation S-X. The proposed amendments remove the instructions as to interim financial statements from the current Form 10-Q and centralize a uniform set of instructions for interim financial statements in a new Article 10 of Regulation S-X.

Appendix F provides a comparison of existing requirements with proposed requirements of Form 10-Q.

Comment Period. Comments on the proposed amendments should be received by the SEC on or before December 15, 1980.
Future Initiatives

The SEC’s Continuing Review of Its Disclosure Rules. The recent amendments to the SEC’s disclosure rules affecting the information required in the annual report to shareholders and in Form 10-K should not be construed to mean that future changes in Form 10-K will automatically affect the disclosure in the annual report to shareholders. For example, the SEC may decide to adopt disclosure rules in Form 10-K only because it believes that the information under consideration is relevant principally for institutional investors and security analysts.

Additionally, the SEC has indicated that its staff will monitor the effectiveness of the newly adopted integrated disclosure system and continue to consider other appropriate modifications. For example, the SEC staff has stated that it is still considering an alternative that would give a shareholder the option of receiving a simplified annual report containing summary financial indicators and other data in lieu of either the traditional annual report or the financial statement section of such report.

The integrated disclosure system is designed to encourage enterprises to consider either including the basic information package – audited financial statements, a summary of selected financial data and a meaningful description of the business and financial condition – in their annual report to shareholders and incorporating it into their Form 10-K or combining their annual report to shareholders and Form 10-K into one document. The SEC recognizes that the sheer volume of disclosure called for under its existing rules concerning business, properties, legal proceedings, parent company financial statements, and separate financial statements of unconsolidated subsidiaries and 50 percent or less owned persons would, in some cases, adversely affect the readability of an enterprise’s annual report to shareholders. In such instances, although combination of the two reports into one document is not feasible, incorporation by reference of the basic information package would be.

The SEC has indicated that it is currently studying the significance and utility of parent company and other separate financial statements presently required by most SEC disclosure forms for annual periods. The ultimate outcome of this ongoing study will help to determine whether the concept of integration can be achieved in its fullest sense. The principal issues are (i) what disclosures, if any, beyond those currently required by GAAP have significance to users of the information, and (ii) if there are any such additional disclosures, in what format should they be presented in financial reports. In the interim, the SEC continues to require the presentation of parent company and other separate financial statements in Form 10-K only, and not in annual reports to shareholders.
Other projects involving financial information being considered by the SEC staff relate to the

- Significance and utility of the ratio of earnings to fixed charges;
- General subject of pro forma financial information, including the objective of such information; and
- Amendments to its rules covering financial statements of investment companies, insurance companies, bank holding companies and banks.

The issues concerning pro forma financial information (that is, what should be required to be disclosed and when such information should be disclosed) are central to the SEC's future consideration of its proposed system for the registration of securities offerings. The SEC has indicated that any future decision concerning the expansion of the availability of Form S-15 may be affected by its project on pro forma financial information.

The SEC also has indicated that, to the extent possible, it will continue to centralize its non-financial statement disclosures in Regulation S-K to foster a uniform and integrated disclosure system. The SEC has stated its intention to review other uniform disclosures that can be centralized in this manner and to continue its ongoing evaluation and monitoring of its Guides for the Preparation and Filing of Registration Statements.

**Reorganization of the Division of Corporation Finance.** Earlier this year the Division of Corporation Finance of the SEC was reorganized along industry lines. In announcing the reorganization, the SEC noted that this would permit the Division "to better ascertain the particular disclosure needs of different industries and to more readily identify industry trends." Concurrently, the administrative focus of the Division was realigned to reflect a shift in emphasis toward relying on periodic disclosure rather than on disclosure documents concerning particular transactions.

Individuals responsible for preparing the management discussion and analysis of an enterprise's financial condition and results of operations should recognize that the SEC, under its industry organization, will have those staff members who are most familiar with their industry reviewing their financial reports. The SEC staff has indicated that one of the benefits of centralizing the review process by industry should be a more consistent application of its disclosure rules – particularly for management discussion and analysis. Managements would be well advised to keep this in mind in preparing their discussion and analysis this year as we understand this section will begin to receive closer scrutiny by the SEC staff in its review process. Emphasis should be placed on developing an analysis that will provide insight into the reported financial results of the enterprise in an informative manner.
INFORMATION REQUIRED IN ANNUAL REPORT TO SHAREHOLDERS

**Old Rules**

1. Two-year audited financial statements

2. Five-year summary of operations
   - Data presented
     - net sales or operating or other revenues
     - cost of goods sold or operating or other expenses (or gross profit)
     - interest expense
     - income tax expense
     - income from continuing operations
     - discontinued operations, less applicable tax
     - income or loss before extraordinary items
     - extraordinary items, less applicable tax
     - cumulative effects of changes in accounting principles
     - net income or loss
     - earnings applicable to common shares
     - earnings per share
     - number of shares used in computation of earnings per share
     - dividends declared per share.

3. Management's discussion and analysis of the summary of operations
   - Focus was on the summary of operations.
   - Content was determined by percentage tests and use of line-by-line analysis.

**Revised Rules**

Two-year audited balance sheets and three-year audited statements of income and changes in financial position

Five-year selected financial data
   - Data presented
     - net sales or operating revenues
     - income (loss) from continuing operations—in total and per common share
     - total assets
     - long-term obligations and redeemable preferred stock
     - cash dividends declared per common share
     - additional items that the registrant believes will enhance understanding and highlight trends in financial condition and results of operations.
     Foregoing data may be combined with the five-year summary information on the effects of inflation and changing prices on the enterprise, if required to be presented under the FASB's rules.

Management's discussion and analysis of financial condition and results of operations
   - Focus is on the enterprise's financial condition, changes in financial condition and results of operations.
   - Broad guidelines are provided. Disclosure should generally include:
     - discussion of the enterprise's liquidity, capital resources and results of operations
Old Rules

4. Brief description of the issuer's business
5. Five-year financial information about
   - industry segments
   - certain classes of similar products or services
   - foreign and domestic operations
   - export sales.
6. Names of directors and executive officers, their principal occupation or employment, and the names and principal business of their respective employers
7. Market price and dividend information
   - the principal market in which voting securities are traded
   - the high and low sales prices or, in the absence thereof, the range of bid and asked quotations for each quarterly period during the past two years
   - the dividends paid during the past two years.

Revised Rules

- favorable or unfavorable trends and significant events or uncertainties
- causes of material changes in the financial statements as a whole
- narrative discussion of effects of inflation and changing prices
- projections or other forward-looking information (optional).

- No specific location is provided.

No change.

The five-year requirement was reduced to three years. Information on intra-enterprise sales is no longer required.

No change.

Market for the registrant's common stock and related security holder matters

Market data required on common stock only. In addition to the old rules:

- If the principal market in which common stock traded is not an exchange, the range of high and low bid quotations and their source should be stated.
- Besides the frequency and amount of dividends paid, any restriction on the enterprise's present or future ability to pay such dividends should be described briefly. If an enterprise
**Old Rules**

8. Offer to provide, without charge and upon written request, a copy of the annual report on Form 10-K.

**Revised Rules**

has not paid dividends despite available earnings and does not intend to pay cash dividends in the foreseeable future, it is encouraged to state that fact. Also, registrants with a history of paying dividends are encouraged to indicate whether they expect to continue paying dividends in the future.

- The approximate number of holders of common stock as of the latest practicable date should be disclosed.

Offer need not be made if the annual report complies with the disclosure requirements of Form 10-K and is filed in lieu thereof with the SEC.
REFERENCE TABLE OF CHANGES IN FORM 10-K

**Old Item**

General instructions

**New Item**

Revised as follows:

- Allows the following information to be incorporated by reference into the Form 10-K:
  - financial statements
  - management discussion and analysis
  - selected financial data
  - market for common stock and related shareholder matters.

- Requires incorporation by reference into the Form 10-K, from the proxy or information statement, of information for election of directors.

**Part I**

1. Business

New Item 1 revised to reduce from five to three the number of years for which specific industry segment data must be provided. Deleted requirement for information on intra-enterprise sales.

2. Summary of operations

Deleted; replaced by selected financial data (New Item 6) relating to a registrant's financial condition and results of continuing operations (see Appendix A).

3. Properties

Unchanged; New Item 2.

4. Parents and subsidiaries

Deleted; replaced by a new exhibit requiring a list of significant subsidiaries.

5. Legal proceedings

Unchanged; New Item 3.

6. Increases and decreases in outstanding securities and indebtedness

Deleted.

7. Changes in securities and changes in security for registered securities

Deleted.
Old Item

8. Defaults upon senior securities

9. Approximate number of equity security holders

10. Submission of matters to a vote of security holders

11. Indemnification of directors and officers

12. Financial statements, exhibits filed, and reports on Form 8-K

Part II

13. Security ownership of certain beneficial owners and management

14. Directors and executive officers of the registrant

15. Management remuneration and transactions

Signatures

New Item

Deleted.

Deleted; added to New Item 5 dealing with market information concerning the registrant’s common stock and related security holder matters (see Appendix A).

Deleted.

Revised in New Items 8 and 11 to require:

- Two-year balance sheets and three-year statements of income and changes in financial position
- As exhibits, other financial statements and schedules required in the Form 10-K but not required in the annual report to shareholders
- A new exhibit listing significant subsidiaries and setting forth limited data about them.

Unchanged; New Item 4.

Unchanged; New Item 9.

Unchanged; New Item 10.

Revised to require signatures by the registrant’s principal executive officer(s), principal financial officer, controller or principal accounting officer, and at least the majority of the board of directors.
Old Item

Instructions as to financial statements
Instructions as to exhibits
Supplemental information

New Item

Deleted; replaced by New Item 8.
Revised to conform with New Item 7 of Regulation S-K.
Clarifies that any materials incorporated by reference into the Form 10-K need not be supplied again to the SEC.

Note: In addition to New Items 5, "Market for the Registrant's Common Stock and Related Security Holder Matters," and 6, "Selected Financial Data," referred to above, the revised Form 10-K contains New Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," replacing the management's discussion and analysis required by Guides 1 and 22 (see Appendix A).
# Reference Table of Rule Changes in Regulation S-X

<table>
<thead>
<tr>
<th>Old Rule</th>
<th>Comments</th>
<th>Revised Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Article 3. Rules of General Application</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3-01. Form, order and terminology</td>
<td>Minor word change in first sentence of paragraph (a); second sentence added (moved from old rule 3-06). Paragraph (a) was expanded to state that unless prepared in accordance with GAAP, financial statements will be presumed to be misleading or inaccurate. Exception: financial statements of foreign private issuers may follow foreign GAAP, provided a reconciliation to U.S. GAAP and the provisions of Regulation S-X is filed as part of the financial statements. First sentence of paragraph (b) revised to allow amounts to be expressed in any multiple of whole dollars. Second sentence deleted. Paragraph (c) revised to allow different methods of presenting negative amounts.</td>
<td>4-01</td>
</tr>
<tr>
<td>3-02. Items not material</td>
<td>Minor word change.</td>
<td>4-02</td>
</tr>
<tr>
<td>3-03. Inapplicable captions and omission of unrequired or inapplicable financial statements</td>
<td>Minor word change.</td>
<td>4-03</td>
</tr>
<tr>
<td>3-04. Omission of substantially identical notes</td>
<td>No change.</td>
<td>4-04</td>
</tr>
</tbody>
</table>

Note: In this Appendix, the following abbreviations refer to the accounting literature specified below:

APB — Accounting Principles Board [Opinion]
ARB — Accounting Research Bulletin
SAS — Statement on Auditing Standards
SFAS — Statement of Financial Accounting Standards
<table>
<thead>
<tr>
<th>Old Rule</th>
<th>Comments</th>
<th>Revised Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>3-05. Omission of names of certain subsidiaries</td>
<td>Deleted but see revised Form 10-K requirement for an exhibit listing significant subsidiaries.</td>
<td>—</td>
</tr>
<tr>
<td>3-06. Additional information</td>
<td>First sentence moved to revised rule on &quot;Form, order and terminology.&quot; Second sentence deleted; registrants are no longer allowed to use statements filed with other governmental agencies in lieu of the financial statements prescribed by Regulation S-X.</td>
<td>—</td>
</tr>
<tr>
<td>3-07. Changes in accounting principles and practices and retroactive adjustments of accounts</td>
<td>Deleted; disclosures duplicate requirements contained in APB Opinion Nos. 9 and 20, and SFAS No. 16.</td>
<td>—</td>
</tr>
<tr>
<td>3-08. Summary of accounting principles and practices</td>
<td>Deleted; disclosures duplicate requirements in APB Opinion No. 22.</td>
<td>—</td>
</tr>
<tr>
<td>3-09. Valuation and qualifying accounts</td>
<td>Deleted but see revised rule 5-02.</td>
<td>—</td>
</tr>
<tr>
<td>3-10. Basis of determining amounts—book value</td>
<td>Deleted; disclosure duplicates requirement contained in APB Opinion No. 22.</td>
<td>—</td>
</tr>
<tr>
<td>3-11. Current assets</td>
<td>Definition deleted as it duplicates definition in ARB No. 43, Chapter 3; no change in required disclosures. Combined with current liabilities in revised rule.</td>
<td>4-05</td>
</tr>
<tr>
<td>3-12. Current liabilities</td>
<td>Definition deleted as it duplicates GAAP definition; no change in required disclosures. Combined with current assets in revised rule.</td>
<td>4-05</td>
</tr>
<tr>
<td>3-13. Reacquired evidences of indebtedness</td>
<td>Added requirement to state the purpose for which reacquired evidences of indebtedness shown as an asset were acquired.</td>
<td>4-06</td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>3-14. Reacquired shares</td>
<td>Deleted; disclosure requirements are addressed in ARB No. 43.</td>
<td>—</td>
</tr>
<tr>
<td>3-15. Discount on shares</td>
<td>Minor revision to recognize financial statement presentation prescribed for redeemable preferred stocks.</td>
<td>4-07</td>
</tr>
<tr>
<td>3-16. General notes to financial statements</td>
<td>The requirement to present note references on the face of the financial statements has been deleted.</td>
<td>4-08</td>
</tr>
<tr>
<td>(a) Principles of consolidation or combination</td>
<td>No change.</td>
<td>(a)</td>
</tr>
<tr>
<td>(b) Principles of translation of items in foreign currencies</td>
<td>Deleted; accounting and reporting requirements are provided in SFAS No. 8.</td>
<td>—</td>
</tr>
<tr>
<td>(c) Assets subject to lien</td>
<td>No change.</td>
<td>(b)</td>
</tr>
<tr>
<td>(d) Intercompany profits and losses</td>
<td>Deleted. ARB No. 51 and APB Opinion No. 18 require elimination of intercompany profits or losses with respect to consolidated subsidiaries and equity investees. New rule on related party transactions requires disclosure of intercompany profits or losses not eliminated with respect to related parties.</td>
<td>—</td>
</tr>
<tr>
<td>(e) Defaults</td>
<td>Deleted portions relating to classification as current liability: definition is provided in ARB No. 43, Chapter 3.</td>
<td>(c)</td>
</tr>
<tr>
<td>(f) Preferred shares</td>
<td>Deleted disclosures that duplicate requirements in APB Opinion Nos. 9, 10 and 15.</td>
<td>(d)</td>
</tr>
<tr>
<td>(g) Pension and retirement plans</td>
<td>Deleted; disclosures duplicate requirements in APB Opinion No. 8 and SFAS No. 36.</td>
<td>—</td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>(h) Restrictions which limit the availability of</td>
<td>Expanded to require disclosure of (1) the most significant restrictions on the payment of dividends of a subsidiary to the parent and (2) the amount of undistributed earnings of unconsolidated subsidiaries and 50 percent or less owned persons (old rule 5-02.41(b)).</td>
<td>(e)</td>
</tr>
<tr>
<td>retained earnings for dividend purposes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Commitments and contingent liabilities</td>
<td>Deleted; disclosures duplicate requirements in SFAS No. 5.</td>
<td>—</td>
</tr>
<tr>
<td>(j) Bonus, profit sharing and other similar plans</td>
<td>Deleted; disclosure was considered generally not of financial significance.</td>
<td>—</td>
</tr>
<tr>
<td>(k) Significant changes in bonds, mortgages, and</td>
<td>No change.</td>
<td>(f)</td>
</tr>
<tr>
<td>similar debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(l) Bases of revenue recognition</td>
<td>Deleted; disclosure duplicates requirement in APB Opinion No. 22.</td>
<td>—</td>
</tr>
<tr>
<td>(m) Depreciation, depletion, obsolescence and</td>
<td>Deleted but see revised rule 12-06.</td>
<td>—</td>
</tr>
<tr>
<td>amortization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(n) Capital stock optioned, sold, or offered for</td>
<td>Deleted. Some disclosures duplicate requirements in APB Opinion No. 25; others were considered no longer necessary.</td>
<td>—</td>
</tr>
<tr>
<td>sale to directors, officers, and key employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(o) Income tax expense</td>
<td>Deleted (1) portions duplicating requirements in APB Opinion No. 11 and (2) requirement concerning disclosure of future cash outlays for income taxes expected to substantially exceed income tax expense. Added requirement to disclose domestic and foreign components of pretax income.</td>
<td>(g)</td>
</tr>
<tr>
<td>(p) Warrants or rights outstanding</td>
<td>Minor change.</td>
<td>(h)</td>
</tr>
<tr>
<td><strong>Old Rule</strong></td>
<td><strong>Comments</strong></td>
<td><strong>Revised Rule</strong></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
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</tr>
<tr>
<td>(q) Leased assets and lease commitments</td>
<td>Deleted disclosures duplicating requirements in SFAS No. 13 but reference to that statement continues previous requirements.</td>
<td>(i)</td>
</tr>
<tr>
<td>(r) Interest cost</td>
<td>No change.</td>
<td>(j)</td>
</tr>
<tr>
<td>(s) Disagreements on accounting and financial disclosure matters</td>
<td>Relocated to Item 12 of Regulation S-K.</td>
<td>—</td>
</tr>
<tr>
<td>(t) Disclosure of selected quarterly financial data in notes to financial statements</td>
<td>Relocated to Item 12 of Regulation S-K.</td>
<td>—</td>
</tr>
<tr>
<td>3-17. Current replacement cost information</td>
<td>No change.</td>
<td>4-09</td>
</tr>
<tr>
<td>3-18. Financial accounting and reporting for oil and gas producing activities pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975</td>
<td>Added disclosure requirement in cases where foreign government restricts or requires certain disclosures concerning reserve estimates.</td>
<td>4-10</td>
</tr>
</tbody>
</table>

**Article 5. Commercial and Industrial Companies**

<p>| <strong>5-01. Application of Rules 5-01 to 5-04</strong> | No change. | 5-01 |
| <strong>5-02. Balance sheets</strong> | Minor change. | 5-02 |
| <strong>1. Cash and cash items</strong> | Deleted list of cash items required to be separately disclosed, but retained disclosure requirements for cash and cash items restricted as to withdrawal or usage. | 1 |</p>
<table>
<thead>
<tr>
<th>Old Rule</th>
<th>Comments</th>
<th>Revised Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Marketable securities</td>
<td>Deleted portions duplicating requirements (that is, current asset classification, and accounting and disclosure requirements for certain marketable equity securities) in ARB No. 43, Chapter 3 and SFAS No. 12.</td>
<td>2</td>
</tr>
<tr>
<td>3. Accounts and notes receivable</td>
<td>Revised to reflect new rules concerning related party transactions [see revised rule 4-08(k)] and to allow disclosure of notes receivable, when required, either on the face of the balance sheet or in the accompanying notes. No change in disclosures.</td>
<td>3</td>
</tr>
<tr>
<td>4. Allowances for doubtful accounts and notes receivable</td>
<td>Requirement replaced by optional location of disclosure as to amounts.</td>
<td>4</td>
</tr>
<tr>
<td>5. Unearned income</td>
<td>Caption only retained; rule duplicates requirement in APB Opinion No. 6.</td>
<td>5</td>
</tr>
<tr>
<td>6. Inventories</td>
<td>Deleted portions duplicating requirements in ARB No. 43, Chapter 4. Added examples of cost elements.</td>
<td>6</td>
</tr>
<tr>
<td>7. Other current assets</td>
<td>Deleted second sentence which was obvious. Specified optional location of disclosure.</td>
<td>8</td>
</tr>
<tr>
<td>8. Prepaid expenses</td>
<td>No change.</td>
<td>7</td>
</tr>
<tr>
<td>9. Total current assets, when appropriate</td>
<td>No change.</td>
<td>9</td>
</tr>
<tr>
<td>10. Securities of affiliates and other persons</td>
<td>Replaced with a reference to revised rule on related party transactions [see revised rule 4-08(k)]. Revised rule significantly expands the present requirement to separately disclose investments in and receivables from affiliates.</td>
<td>10</td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>11. Indebtedness of affiliates and other persons—not current</td>
<td>See preceding comments.</td>
<td>11</td>
</tr>
<tr>
<td>12. Other security investments</td>
<td>Revised to recognize current GAAP requirements and to comprehend other investments.</td>
<td>12</td>
</tr>
<tr>
<td>13. Other investments</td>
<td>Combined with old rule 5-02.12.</td>
<td>12</td>
</tr>
<tr>
<td>14. Property, plant and equipment</td>
<td>Deleted requirement to state major classes. Modified requirement applicable to public utilities.</td>
<td>13</td>
</tr>
<tr>
<td>15. Accumulated depreciation, depletion and amortization of property, plant and equipment</td>
<td>Specified optional location of disclosure.</td>
<td>14</td>
</tr>
<tr>
<td>16. Intangible assets</td>
<td>Expanded to require separate disclosure of items exceeding 5% of total assets and explanation of significant changes during the period.</td>
<td>15</td>
</tr>
<tr>
<td>17. Accumulated depreciation and amortization of intangible assets</td>
<td>Specified optional location of disclosure.</td>
<td>16</td>
</tr>
<tr>
<td>18. Other assets</td>
<td>Revised to comprehend in one rule the following:</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>• prepaid expenses and deferred charges (old rule 5-02.19)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• preoperating expenses and similar deferrals (old rule 5-02.20)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• deferred organization expense (old rule 5-02.21)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• deferred debt expense (old rule 5-02.22)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• deferred commissions and expense on capital shares (old rule 5-02.23).</td>
<td></td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>Revised rule requires separate disclosure, in the balance sheet or a note thereto, of any asset (not includable in other captions) that exceeds 5% of total assets. In addition, any significant changes during the period should be explained. Statement of policy for deferral and amortization of any significant deferred charge continues to be required.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. Prepaid expenses and deferred charges</td>
<td>Deleted; see preceding comments.</td>
<td>—</td>
</tr>
<tr>
<td>20. Preoperating expenses and similar deferrals</td>
<td>Deleted; see preceding comments.</td>
<td>—</td>
</tr>
<tr>
<td>21. Deferred organization expense</td>
<td>Deleted; see preceding comments.</td>
<td>—</td>
</tr>
<tr>
<td>22. Deferred debt expense</td>
<td>Deleted; see preceding comments.</td>
<td>—</td>
</tr>
<tr>
<td>23. Deferred commissions and expense on capital shares</td>
<td>Deleted; see preceding comments.</td>
<td>—</td>
</tr>
<tr>
<td>24. Total assets and, when appropriate, other debits</td>
<td>No change.</td>
<td>18</td>
</tr>
<tr>
<td>25. Accounts and notes payable</td>
<td>Revised to reflect changes resulting from revised rule on related party transactions [revised rule 4-08(k)]. Moved certain disclosure requirements concerning short-term borrowings to schedule IX required under revised rule 5-04.</td>
<td>19</td>
</tr>
<tr>
<td>26. Accrued liabilities</td>
<td>Combined with old rule 5-02.27 (other current liabilities).</td>
<td>20</td>
</tr>
<tr>
<td>27. Other current liabilities</td>
<td>Revised to include old rule 5-02.26 (accrued liabilities).</td>
<td>20</td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>28. Total current liabilities, when appropriate</td>
<td>No change.</td>
<td>21</td>
</tr>
<tr>
<td>29. Bonds, mortgages and similar debt</td>
<td>Minor change.</td>
<td>22</td>
</tr>
<tr>
<td>30. Unamortized debt discount and premium</td>
<td>Deleted; disclosure duplicates requirement in APB Opinion No. 21.</td>
<td>—</td>
</tr>
<tr>
<td>31. Indebtedness to affiliates and other persons—not current</td>
<td>Caption changed and reference made to revised rule on related party transactions [revised rule 4-08(k)].</td>
<td>23</td>
</tr>
<tr>
<td>32. Other long-term debt</td>
<td>Deleted; comprehended by old rule 5-02.33.</td>
<td>—</td>
</tr>
<tr>
<td>33. Other liabilities</td>
<td>Specified optional location of disclosure.</td>
<td>24</td>
</tr>
<tr>
<td>34. Commitments and contingent liabilities</td>
<td>No change.</td>
<td>25</td>
</tr>
<tr>
<td>35. Deferred credits</td>
<td>Deleted requirement for separate current classification of deferred taxes as it duplicates requirement in APB Opinion No. 11.</td>
<td>26</td>
</tr>
<tr>
<td>36. Reserves</td>
<td>Deleted; disclosure duplicates requirements in SFAS No. 5.</td>
<td>—</td>
</tr>
<tr>
<td>37. Minority interests in consolidated subsidiaries</td>
<td>Minor change.</td>
<td>27</td>
</tr>
<tr>
<td>38. Redeemable preferred stocks</td>
<td>No change, other than allowing footnote disclosure when more than one issue is involved.</td>
<td>28</td>
</tr>
<tr>
<td>39. Non-redeemable preferred stocks</td>
<td>No change, other than allowing footnote disclosure when more than one issue is involved.</td>
<td>29</td>
</tr>
<tr>
<td>40. Common stocks</td>
<td>No change, other than specifying optional footnote disclosure of certain items.</td>
<td>30</td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>----------</td>
<td>----------</td>
<td>-------------</td>
</tr>
<tr>
<td>41. Other stockholders' equity</td>
<td>Revised to permit combination of certain items. Paragraph (b) moved to revised rule 4.08(e).</td>
<td>31</td>
</tr>
<tr>
<td>42. Total liabilities, reserves and stockholders' equity</td>
<td>Deleted “reserves” from caption.</td>
<td>32</td>
</tr>
<tr>
<td>5-03. Income statements</td>
<td>Deleted nature of items to be included as it duplicates requirements in APB Opinion Nos.9 and 30. Other minor changes.</td>
<td>5-03</td>
</tr>
<tr>
<td>1A. Net sales of tangible products</td>
<td>Combined with old rules 5-03.1B and 5-03.1C under revised caption, “Net Sales and Gross Revenues.” Lowered percentage test for disclosing excise taxes from 10% to 1% of total sales and revenues.</td>
<td>1</td>
</tr>
<tr>
<td>2A. Cost of tangible goods sold</td>
<td>Combined with old rules 5-03.2B and 5-03.2C under revised caption, “Costs and Expenses Applicable to Sales and Revenues.” Deleted requirement to disclose amounts and bases of determining beginning and ending inventories.</td>
<td>2</td>
</tr>
<tr>
<td>1B. Operating revenues of public utilities</td>
<td>Combined with old rules 5-03.1A and 5-03.1C.</td>
<td>1</td>
</tr>
<tr>
<td>2B. Operating expenses of public utilities</td>
<td>Combined with old rules 5-03.2A and 5-03.2C.</td>
<td>2</td>
</tr>
<tr>
<td>1C. Other revenues</td>
<td>Combined with old rules 5-03.1A and 5-03.1B.</td>
<td>1</td>
</tr>
<tr>
<td>2C. Costs and expenses applicable to other revenues</td>
<td>Combined with old rules 5-03.2A and 5-03.2B.</td>
<td>2</td>
</tr>
<tr>
<td>3. Other operating costs and expenses</td>
<td>Minor change.</td>
<td>3</td>
</tr>
<tr>
<td>Old Rule</td>
<td>Comments</td>
<td>Revised Rule</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>3A. Research and development expenses</td>
<td>Deleted; disclosure duplicates requirement in SFAS No. 2.</td>
<td>—</td>
</tr>
<tr>
<td>4. Selling, general and administrative expenses</td>
<td>Caption only retained. Disclosure duplicates requirements in APB Opinion No. 30.</td>
<td>4</td>
</tr>
<tr>
<td>5. Provision for doubtful accounts and notes</td>
<td>No change.</td>
<td>5</td>
</tr>
<tr>
<td>6. Other general expenses</td>
<td>No change.</td>
<td>6</td>
</tr>
<tr>
<td>7. Dividends</td>
<td>Deleted requirement to separately disclose amounts from different sources as they are not usually significant. Combined with old rules 5-03.8, 5-03.9, and 5-03.10 under revised caption, &quot;Non-operating Income.&quot;</td>
<td>7</td>
</tr>
<tr>
<td>8. Interest on securities</td>
<td>See preceding comment.</td>
<td>7</td>
</tr>
<tr>
<td>9. Profits on securities</td>
<td>Deleted specific requirements duplicated in SFAS No. 12 and APB Opinion No. 30. Combined with old rules 5-03.7, 5-03.8 and 5-03.10.</td>
<td>7</td>
</tr>
<tr>
<td>10. Miscellaneous other income</td>
<td>Combined with old rules 5-03.7, 5-03.8 and 5-03.9.</td>
<td>7</td>
</tr>
<tr>
<td>11. Interest and amortization of debt discount and expense</td>
<td>Caption only retained. Disclosure requirements are contained in SFAS No. 34.</td>
<td>8</td>
</tr>
<tr>
<td>12. Losses on securities</td>
<td>Deleted specific requirements duplicated in SFAS No. 12 and APB Opinion No. 30. Combined with old rule 5-03.13 under revised caption, &quot;Non-operating Expenses.&quot;</td>
<td>9</td>
</tr>
<tr>
<td>13. Miscellaneous income deductions</td>
<td>Combined with old rule 5-03.12.</td>
<td>9</td>
</tr>
<tr>
<td>14. Income or loss before income tax expense and appropriate items below</td>
<td>No change.</td>
<td>10</td>
</tr>
<tr>
<td><strong>Old Rule</strong></td>
<td><strong>Comments</strong></td>
<td><strong>Revised Rule</strong></td>
</tr>
<tr>
<td>-------------</td>
<td>--------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>15. Income tax expense</td>
<td>No change.</td>
<td>11</td>
</tr>
<tr>
<td>16. Minority interest in income of consolidated subsidiaries</td>
<td>No change.</td>
<td>12</td>
</tr>
<tr>
<td>17. Equity in earnings of unconsolidated subsidiaries and 50% or less owned persons</td>
<td>Minor changes.</td>
<td>13</td>
</tr>
<tr>
<td>18. Income or loss before extraordinary items and cumulative effects of changes in accounting principles</td>
<td>New Items added: Income or loss from continuing operations</td>
<td>14</td>
</tr>
<tr>
<td>19. Extraordinary items, less applicable tax</td>
<td>Discontinued operations</td>
<td>15</td>
</tr>
<tr>
<td>20. Cumulative effects of changes in accounting principles</td>
<td>No change.</td>
<td>16</td>
</tr>
<tr>
<td>21. Net income or loss</td>
<td>Caption only retained. Disclosure requirements are contained in APB Opinion No. 30 and SFAS No. 4.</td>
<td>17</td>
</tr>
<tr>
<td>22. Earnings per share data</td>
<td>Caption only retained. Disclosure requirements are contained in APB Opinion No. 20.</td>
<td>18</td>
</tr>
<tr>
<td>5-04. What schedules are to be filed</td>
<td>Caption only retained. Disclosure requirements are contained in APB Opinion Nos. 15 and 30.</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Changes made as a result of revisions made in Article 12 and a renumbering of schedules.</td>
<td>20</td>
</tr>
</tbody>
</table>

**Article 12. Form and Content of Schedules**

**General**

12-01. Application of Rules 12-01 to 12-43 | No change, other than rule number cited. | 12-01 |
<table>
<thead>
<tr>
<th>Old Rule</th>
<th>Comments</th>
<th>Revised Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td>12-02. Marketable securities—other security investments</td>
<td>Caption changed but no change in format.</td>
<td>12-02</td>
</tr>
<tr>
<td>12-03. Amounts receivable from underwriters, promoters, directors, officers, employees, and principal holders (other than affiliates) of equity securities of the person and its affiliates</td>
<td>Caption changed but no change in format. Expanded to encompass related parties as defined in SAS No. 6.</td>
<td>12-03</td>
</tr>
<tr>
<td>12-04. Investments in, equity in earnings of, and dividends received from affiliates and other persons</td>
<td>Caption changed but no change in format. Expanded to encompass related parties as defined in SAS No. 6.</td>
<td>12-04</td>
</tr>
<tr>
<td>12-05. Indebtedness of affiliates and other persons—not current</td>
<td>Caption changed. Expanded to include disclosures required by old rule 12-11 (indebtedness to affiliates and other persons—not current) and to require an analysis of changes in balances. Revised format combines schedule prescribed by old rule 12-11.</td>
<td>12-05</td>
</tr>
<tr>
<td>12-06. Property, plant and equipment</td>
<td>Footnote added to include the requirement to disclose the methods and, if practicable, rates used to compute annual depreciation [old rule 3-16 (m)(l)].</td>
<td>12-06</td>
</tr>
<tr>
<td>12-07. Accumulated depreciation, depletion and amortization of property, plant and equipment</td>
<td>No change.</td>
<td>12-07</td>
</tr>
<tr>
<td>12-08. Intangible assets, preoperating expenses and similar deferrals</td>
<td>Deleted; disclosures now required under revised rules 5-02.15 and 5-02.17.</td>
<td>—</td>
</tr>
<tr>
<td>12-09. Accumulated depreciation and amortization of intangible assets</td>
<td>Deleted; accounting and disclosures prescribed by APB Opinion No. 17. Depreciation and amortization expense is required to be disclosed in old rule 12-16.</td>
<td>—</td>
</tr>
<tr>
<td><strong>Old Rule</strong></td>
<td><strong>Comments</strong></td>
<td><strong>Revised Rule</strong></td>
</tr>
<tr>
<td>-------------</td>
<td>--------------</td>
<td>-----------------</td>
</tr>
<tr>
<td>12-10. Bonds, mortgages and similar debt</td>
<td>Deleted; disclosures now required under revised rules 4-08(k) and 5-02.22.</td>
<td>—</td>
</tr>
<tr>
<td>12-11. Indebtedness to affiliates and other persons—not current</td>
<td>Combined with schedule on “Indebtedness of affiliates and other persons—not current” (old rule 12-05). Expanded disclosure to require an analysis of changes in balances.</td>
<td>12-05</td>
</tr>
<tr>
<td>12-12. Guarantees of securities of other issuers</td>
<td>No change.</td>
<td>12-08</td>
</tr>
<tr>
<td>12-13. Valuation and qualifying accounts and reserves</td>
<td>Caption revised to delete “and reserves”.</td>
<td>12-09</td>
</tr>
<tr>
<td></td>
<td>New Item added: Short-term borrowings</td>
<td>12-10</td>
</tr>
<tr>
<td>12-14. Capital shares</td>
<td>Deleted; disclosures duplicate requirements in old rules 5-02.38, 5-02.39, 5-02.40, 5-02.41 and revised rule 4-08(k).</td>
<td>—</td>
</tr>
<tr>
<td>12-15. Warrants or rights</td>
<td>Deleted; disclosures duplicate requirements in old rule 3-16(p).</td>
<td>—</td>
</tr>
<tr>
<td>12-16. Supplementary income statement information</td>
<td>Deleted certain disclosures required by SFAS No. 13 and APB Opinion No. 12.</td>
<td>12-11</td>
</tr>
</tbody>
</table>

No change in remaining rules, other than renumbering.
APPENDIX D

REVISED MANAGEMENT DISCUSSION AND ANALYSIS—
TEXT OF ADOPTED RULES


Discuss registrant's financial condition, changes in financial condition and results of operations. The discussion shall provide information as specified in paragraphs (a), (b) and (c) of this section with respect to liquidity, capital resources, and results of operations, and should also provide such other information which the registrant believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations. Discussions of liquidity and capital resources may be combined whenever the two topics are interrelated. Where in the registrant's judgment a discussion of segment information or of other subdivisions of the registrant's business would be appropriate to an understanding of such business, the discussion should focus on each relevant, reportable segment or other subdivision of the business and on the registrant as a whole.

(a) Liquidity.

Identify any known trends or any known demands, commitments, events or uncertainties which will result in or which are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way. If a material deficiency is identified, indicate the course of action which the registrant has taken or proposes to take to remedy the deficiency. Identify and separately describe internal and external sources of liquidity, and briefly discuss any material unused sources of liquid assets.

(b) Capital resources.

Describe the registrant's material commitments for capital expenditures as of the end of the latest fiscal period, and indicate the
general purpose of such commitments and the anticipated source of funds needed to fulfill such commitments.

Describe any known material trends, favorable or unfavorable, in the registrant's capital resources. Indicate any expected material changes in the mix and the relative cost of such resources. This discussion should consider changes between equity, debt and any off-balance sheet financing arrangements.

(c) Results of operations.

Describe any unusual or infrequent events or transactions or any significant economic changes which materially affected the amount of reported income from continuing operations and, in each case, indicate the extent to which income was so affected. In addition, describe any other significant components of revenues or expense which, in the registrant's judgment, should be described in order to understand the registrant's results of operations.

Describe any known trends or uncertainties which have had or which the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations. If the registrant knows of events which will cause a material change in the relationship between costs and revenues (such as known future increases in costs of labor or materials or price increases or inventory adjustments) the change in the relationship should be disclosed.

To the extent that the financial statements disclose material increases in net sales or revenues, provide a narrative discussion of the extent to which such increases are attributable to increases in prices or to increases in the volume or amount of goods or services being sold or to the introduction of new products or services.
For the three most recent fiscal years of the registrant, or for those fiscal years beginning after December 25, 1979, or for those fiscal years in which the registrant has been engaged in business, whichever period is shorter, discuss the impact of inflation and changing prices on the registrant's net sales and revenues and on income from continuing operations.

Instructions.

1. The registrant's discussion and analysis shall be of the financial statements and of other statistical data which the registrant believes will enhance a reader's understanding of its financial condition, changes in financial condition and results of operations. Generally, the discussion should cover the three year period covered by the financial statements and should utilize year-to-year comparisons or any other formats which in the registrant's judgment enhance a reader's understanding. However, where trend information is relevant, reference to the five year selected financial data appearing in Item 10 of Regulation S-K may be necessary.

2. The purpose of the discussion and analysis should be to provide to investors and other users information relevant to an assessment of the financial condition and results of operations of the registrant as determined by evaluating the amounts and certainty of cash flows from operations and from outside sources. The information provided in this Item 11 need only include that which is available to the registrant without undue effort or expense but which does not clearly appear in the registrant's financial statements.

3. The discussion and analysis should specifically focus on material events and uncertainties known to management which would cause reported financial information not to be necessarily indicative
of future operating results or of future financial condition. This would include description and amounts of (a) matters which would have an impact on future operations and have not had an impact in the past, and (b) matters which have had an impact on reported operations and are not expected to have an impact upon future operations.

4. Where the consolidated financial statements reveal material changes from year to year in one or more line items, the causes for the changes should be described to the extent necessary to an understanding of the registrant's businesses as a whole; provided, however, if the causes for a change in one line item also relate to other line items, no repetition is required and a line-by-line analysis of the financial statements as a whole is not required or generally appropriate. Registrants need not recite the amounts of changes from year to year which are readily computable from the financial statements. The discussion should not merely repeat numerical data contained in the consolidated financial statements.

5. The term "liquidity" as used in paragraph (a) of this Item refers to the ability of an enterprise to generate adequate amounts of cash to meet the enterprise's needs for cash. Except where it is otherwise clear from the discussion, the registrant should indicate those balance sheet conditions or income or cash flow items which the registrant believes may be indicators of its liquidity condition. Liquidity generally should be discussed on both a long-term and short-term basis. The issue of liquidity should be discussed in the context of the registrant's own business or businesses. For example, a discussion of working capital may be appropriate for certain manufacturing, industrial or related operations but might be inappropriate for a bank or public utility.
6. Registrants are encouraged, but not required, to supply forward-looking information. This is to be distinguished from presently-known data which will impact upon future operating results, such as known future increases in costs of labor or materials. This latter data may be required to be disclosed. Any forward-looking information supplied is expressly covered by the safe harbor rule for projections. See Securities Act Release No. 6084 (June 25, 1979) [44 FR 38810].

7. Registrants which are required to provide narrative explanations of supplementary information disclosed in accordance with paragraph 37 of SFAS 33 may combine such explanations with the registrant's discussion and analysis required pursuant to this provision or may supply such information separately. If such statement is combined, the supplementary information required by SFAS 33 shall be located in reasonable proximity to the discussion and analysis. If such statement is not combined the discussion of the impact of inflation otherwise required by this item may be omitted but an appropriate cross reference to the explanation required by paragraph 37 of SFAS 33 shall be made. Foreign registrants need not comply with SFAS 33 but if, in its home country, a foreign registrant must satisfy requirements that are analogous to SFAS No. 33, then such analogous presentation shall be given.

8. Registrants which are not required to provide explanations of supplementary information disclosed in accordance with SFAS 33 (including foreign private registrants) may discuss the effects of inflation and changes in prices in whatever manner appears appropriate under the circumstances. Although voluntary compliance with SFAS 33 is encouraged, it is not required. All that is required is a brief textual presentation of management's views. No specific numeric financial data need be presented.
9. All references to the registrant in the discussion and in these instructions shall mean the registrant and its subsidiaries consolidated.

10. Foreign private registrants should also discuss briefly any pertinent governmental economic, fiscal, monetary, or political policies or factors which have materially affected or could materially affect, directly or indirectly, company operations or investments by United States nationals.
## PROPOSED DISCLOSURE REQUIREMENTS FOR FORMS A, B AND C
(Reprinted from SEC Release No. 33-6235)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>SOURCE</th>
<th>FORM A</th>
<th>FORM B</th>
<th>FORM C</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Distribution Spread</td>
<td>Form S-7, modified</td>
<td>X</td>
<td>X (modified)</td>
<td>X (modified)</td>
</tr>
<tr>
<td>2. Summary</td>
<td>New (includes Item 10 of Regulation S-K)</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>3. Plan of Distribution</td>
<td>Forms S-7, S-16</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>4. Use of Proceeds</td>
<td>Form S-1, modified</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>5. Selling Security Holders</td>
<td>Form S-16, modified</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>6. Description of Securities to be Registered</td>
<td>Forms S-1, S-7, S-16, modified</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
7. Information with Respect to the Issuer

<table>
<thead>
<tr>
<th>ITEM</th>
<th>SOURCE</th>
<th>FORM A</th>
<th>FORM B</th>
<th>FORM C</th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>All periodic reports are incorporated by reference</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Form B has option to deliver annual report to security holders containing this information. Also, periodic reports are incorporated by reference.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(a) Business

Incorporated by reference from periodic reports. 14a-3 (and Item 1, S-K periodic reports are incorporated by reference).

(b) Financial Statements

Incorporated by reference from periodic reports (Note: if Rules 3-07 or 3-08 of S-X are applicable financial statements must be in prospectus).

Uniform but Uniform schedules and non-consolidated financial statements are incorporated by reference.

(c) Segments

Incorporated by reference from 10-K

Item 1, S-K  Item 1, S-K
<table>
<thead>
<tr>
<th>ITEM</th>
<th>SOURCE</th>
<th>FORM A</th>
<th>FORM B</th>
<th>FORM C</th>
</tr>
</thead>
<tbody>
<tr>
<td>(d) Beneficial Ownership</td>
<td>Incorporated by reference from 10-K</td>
<td>Incorporated by reference from 10-K</td>
<td>Item 6, S-K incorporated by reference in same cases from 10-K</td>
<td></td>
</tr>
<tr>
<td>(e) Market &amp; Dividend Data</td>
<td>Incorporated by reference from 10-K</td>
<td>Item 9, S-K, modified</td>
<td>Item 9, S-K, modified</td>
<td></td>
</tr>
<tr>
<td>(f) Management's Discussion</td>
<td>Incorporated by reference from 10-K and 10-Q</td>
<td>Item 11, S-K</td>
<td>Item 11, S-K</td>
<td></td>
</tr>
<tr>
<td>(g) Supplementary Financial Data</td>
<td>Incorporated by reference from 10-K</td>
<td>Item 12, S-K</td>
<td>Item 12, S-K</td>
<td></td>
</tr>
</tbody>
</table>
### Additional Information

<table>
<thead>
<tr>
<th>Item</th>
<th>Source</th>
<th>Form A</th>
<th>Form B</th>
<th>Form C</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Additional Information</td>
<td>New - based on Forms S-7, S-16</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>(a) Quarterly Financials</td>
<td></td>
<td>(Form 10-Q is incorporated by reference as are all periodic reports)</td>
<td>X</td>
<td>(option to deliver Form 10-Q)</td>
</tr>
<tr>
<td>(b) Subsequent Material Changes</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>(c) Availability of 1934 Act Reports</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>(d) National Exchange Listing</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>(e) Undertaking to Provide Periodic Reports That Are Incorporated by Reference Upon Request</td>
<td></td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

#### PART II. INFORMATION NOT REQUIRED IN PROSPECTUS

9. Incorporation by Reference | New | all 34 Act periodic reports-10-K, 10-Q, 8-K | Same as Form A plus certain portions I of Form 10-K of annual report to security holders if used | Part III and Item 4 of Part
<table>
<thead>
<tr>
<th>ITEM</th>
<th>SOURCE</th>
<th>FORM A</th>
<th>FORM B</th>
<th>FORM C</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. Other Expenses of Issuance and Distribution</td>
<td>Forms S-7, S-16</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>11. Interest of Experts Named</td>
<td>Forms S-7, S-16</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>12. Indemnification of Directors and Officers</td>
<td>Form S-7</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>13. Other Documents Filed; Exhibits</td>
<td>Form S-7 and New Item 7 of S-K</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>14. Recent Sales of Unregistered Securities</td>
<td>Form S-1</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>15. Undertakings</td>
<td>Form S-7 modified</td>
<td>1st 3 same, 4th deleted—about sending shareholders annual report to security holders if issuer 15(d) co.</td>
<td>1st 3 same, plus adds one—re delivering annual report to security holders with prospectus if used for incorporating by reference</td>
<td>Same as Form A</td>
</tr>
<tr>
<td>Signatures</td>
<td>Forms S-1, S-7, S-16</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>
## COMPARISON OF EXISTING REQUIREMENTS WITH PROPOSED REQUIREMENTS—FORM 10-Q

<table>
<thead>
<tr>
<th>Present Item</th>
<th>Proposal</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part I—Financial Information</strong></td>
<td></td>
</tr>
<tr>
<td>Instructions (general)</td>
<td>Delete; uniform instructions for interim financial statements would be centralized in Regulation S-X (proposed Article 10).</td>
</tr>
<tr>
<td>Financial statements</td>
<td>No change in content except for providing comparative statements of changes in financial position for the last quarter; however, proposed instructions would:</td>
</tr>
<tr>
<td></td>
<td>• Clarify the nature and extent of disclosures required to supplement the interim financial statements.</td>
</tr>
<tr>
<td></td>
<td>• Allow the disclosures to be made either on the face of the financial statements, in accompanying notes, or in management’s discussion and analysis.</td>
</tr>
<tr>
<td>Management’s discussion and analysis</td>
<td>• Expand to comprehend material changes not only in results of operations but also in financial condition.</td>
</tr>
<tr>
<td></td>
<td>• Provide broad guidelines that parallel Form 10-K instructions.</td>
</tr>
<tr>
<td></td>
<td>• Delete present requirement to discuss the immediately preceding quarter.</td>
</tr>
<tr>
<td>Review by independent public accountants</td>
<td>Require that, if reference is made to a review by independent public accountants, a report from them be filed as an exhibit. Delete present requirement for a statement by the registrant regarding adjustments and disclosures proposed by the independent public accountants.</td>
</tr>
<tr>
<td><strong>Part II—Other Information</strong></td>
<td></td>
</tr>
<tr>
<td>Item 1. Legal proceedings</td>
<td>No change.</td>
</tr>
<tr>
<td>Item 2. Changes in securities</td>
<td>No change.</td>
</tr>
<tr>
<td>Item 3. Changes in security for registered securities</td>
<td>Delete.</td>
</tr>
<tr>
<td>Present Item</td>
<td>Proposal</td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Item 4. Defaults upon senior securities</td>
<td>No change.</td>
</tr>
<tr>
<td>Item 5. Increase in amount outstanding of securities or indebtedness</td>
<td>Delete.</td>
</tr>
<tr>
<td>Item 6. Decrease in amount outstanding of securities or indebtedness</td>
<td>Delete.</td>
</tr>
<tr>
<td>Item 7. Submission of matters to a vote of security holders</td>
<td>No change.</td>
</tr>
<tr>
<td>Item 8. Other materially important events</td>
<td>No change.</td>
</tr>
<tr>
<td>Item 9. Exhibits and reports on Form 8-K</td>
<td>No change.</td>
</tr>
<tr>
<td>Signatures</td>
<td>No change.</td>
</tr>
</tbody>
</table>