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INTERSTATE COMMERCE COMMISSION

No. 36057

ACCOUNTING FOR TREASURY STOCK AT COST,
INSTRUCTIONS FOR TRANSACTIONS WITH AFFILIATES
AND CHARGES TO BE JUST AND REASONABLE
(49 C.F.R. 1201-1210)

Decided June 24, 1975

Upon investigation and consideration of views, arguments, and representations of the parties, certain revised accounting regulations governing all carriers subject to our accounting rules (1201-1210), are adopted to be effective January 1, 1975.

William M. Moloney and W. J. Taylor for certain railroads.

Thomas M. Dyer for certain freight forwarders.

REPORT AND ORDER OF THE COMMISSION

BY THE COMMISSION:

By Notice of Proposed Rulemaking dated November 5, 1974, and published in the Federal Register on December 30, 1974 (39 FR 45048), this Commission announced that it had under consideration revisions to the systems of accounts (49 CFR, Parts 1201-1210) prescribed for all modes of transportation under its jurisdiction. These revisions relate to accounting for treasury stock at cost, transactions with affiliates, and charges to be just and reasonable. All interested parties were given the opportunity to submit their views and comments in writing by January 27, 1975.

BACKGROUND

Treasury stock accounting. Under our present accounting regulations, all modes except freight forwarders follow the par value method rather than the cost method of accounting for purchase by a corporation of its own stock. Both methods recognize a contraction in stockholders' equity; however, the actual accounting entries and balance sheet presentation differ.

Briefly, under the cost method, the reacquired stock is recorded at cost and is shown on the balance sheet as a deduction from stockholders' equity. Under the par value method, the treasury stock is recorded at par or stated value and shown as a deduction from capital stock to arrive at net capital stock outstanding. The difference between reacquisition cost and par or stated value is apportioned to the appropriate capital surplus accounts or retained earnings. Under either method the ending balance for stockholders' equity is the same.

While both accounting treatments are in accordance with generally accepted accounting principles, the cost method is more widely used by companies that prepare reports to stockholders and is the method preferred by the accounting profession and other regulatory agencies.

Transactions with affiliated companies. An instruction concerning transactions with affiliated companies would require records of such transactions to be retained in a separate file to include documentation and justification for the basis of the charges. This file would aid this Commission in determining whether the transactions unnecessarily raise operating costs of carriers. Presently, the system of accounts for railroads (Part 1201) and class I and II motor carriers of property (Part 1207) contain this instruction. However, we have modified the language so that it will be uniform throughout all systems, even though the intent of the instruction remains the same.

Charges to be just and reasonable. Charges to the operating expense accounts must be "just and reasonable" in order that the rate structure is not affected by expenses not related to providing transportation service. Consequently, any charges to operating expenses should not exceed the fair market value of goods or services acquired in arms-length transactions. The system of accounts for motor carriers of property is the only system currently prescribing this instruction. Here again, some minor wording modifications have been made in order to maintain uniformity throughout all systems.

REPRESENTATIONS

The public notification of proposed rulemaking in the Federal Register provided that any person desiring to participate could do so by filing, within a prescribed time, written statements of facts, views, or arguments. Comments were received from three respondents, and they are summarized below:

Railroads. The Association of American Railroads (AAR) representing its member roads, asserts that the proposed rule does not accomplish its announced objective of bringing the accounting rules of this Commission for treasury stock into line with generally accepted accounting principles as pronounced in Accounting Principles Board Opinion No. 6 and recommends that Opinion 6 be adopted completely by reference in the text of the account.

AAR also suggests that the proposed instruction for transactions with affiliated companies be revised to allow information relating to the basis of charges to be retained in supporting documentation rather than appear on each individual bill.

The Atchison, Topeka and Santa Fe Railway Company (Santa Fe) urges the Commission to modify the proposed regulations in order to specify that all transactions with affiliated companies should be at arms-length and the cost of assets or services purchased from affiliates should not exceed the cost which could be obtained from unrelated parties for comparable assets or services.

Freight Forwarders. The Freight Forwarders Institute suggests an addition of joint loading arrangements in the parenthetical example of the proposed regulation for transactions with affiliated companies, in order to clarify the scope of its application. The Institute believes operations of this nature are "ordinary carrier operations" and should be specifically excluded from the proposed regulation.

DISCUSSION AND CONCLUSIONS

The following discussion is arranged according to subject matters raised by the respondents:

Treasury stock ccounting. AAR argues for aligning this Commission accounting rules for treasury stock with generally accepted accounting principles. We have based our proposed rule on APB Opinion No. 6, which provides two prevailing views of accounting for acquisition of treasury stock: par value method and the cost method.

Therefore, our proposed regulation changes the presently prescribed accounting from one generally accepted method to another. However, the cost method represents the modern approach, being more widely used in today's financial statements. In addition, we believe optional accounting is not justifiable for regulatory purposes. Therefore, while we agree that our proposed rule is not identical to generally accepted accounting principles, (since it does not permit optional accounting) we believe the adoption of the cost method will move our rules closer to them because of the wider acceptance of that method. Also, we believe the benefits of uniformity far outweigh the potential unreliability of optional accounting treatments.1/

To implement the cost method, all treasury stock presently held shall be reaccounted for under the cost method, provided it has not been constructively retired.

Transactions with affiliated companies. Santa Fe recommends a change regarding the price of assets and services purchased from affiliated companies. Santa Fe suggests that in circumstances where public price lists do not exist the purchase price should be based on cost determined by arms-length bargaining instead of a lower of book value or fair market value. We believe that prices determined under the lower of book value or fair market value are more relevant for ratemaking purposes. To allow carriers to charge operating expenses with the fair market value of assets transferred or services performed without consideration to the cost incurred by affiliated companies could cause an unwarranted increase in carriers' operating expenses which on an aggregate basis could result in unjustified rate increases. The objective of this Commission in requiring a file of transactions with affiliated companies is to determine whether transactions with affiliated companies unnecessarily raise operating costs. Therefore, we do not accept Santa Fe's recommendation.

AAR suggests that the proposed instruction for "Transactions with affiliated companies" be revised to allow information relating to the basis of charges to be retained in supporting documentation as opposed to stating such information on each individual bill. This Commission has no objection with the AAR's alternative. However, in instances where sufficient supporting documentation is not maintained, the basis for such charges must be specifically identified on each bill.

Freight Forwarders Institute requests a change to clarify the scope of its application relating to joint loading arrangements. It is evident that instructions must necessarily be limited in detail; however, we have revised the instruction to call attention to this aspect of freight forwarders' operations.

Some revisions of an editorial or clarifying nature have also been made. Other minor recommended revisions were considered and found unnecessary.

SUMMARY

While the three subject areas differ, we proposed that they be considered in the same proceeding. This facilitates making accounting changes in a more timely manner which we believe is beneficial to all interested parties. We believe the changes discussed in this Report add more definitive guidelines to the uniform system of accounts, and improve financial reporting of carriers by bringing us closer in aligning our accounting rules with generally accepted accounting principles.

1/ In "optional accounting", the carrier may utilize the par value method or the cost method at its option.

FINDINGS

We find that parts 1201 through 1210 of Chapter X of Title 49 of the Code of Federal Regulations should be amended as detailed in the appended statement of changes; and that such rules are reasonable and necessary to the effective enforcement of the provisions of part I, II, III and IV of the Interstate Commerce Act, as amended; that such rules are otherwise lawful and, to the extent so found in this report, consistent with the public interest and the national transportation policy; and that this decision is not a major Federal action significantly affecting the quality of the human environment within the meaning of the National Environment Policy Act of 1969.

An appropriate order will be entered.

COMMISSIONER HARDIN did not participate.

ORDER

TITLE 49	-	TRANSPORTATION
CHAPTER X	-	INTERSTATE COMMERCE COMMISSION
SUBCHAPTER C	-	ACCOUNTS, RECORDS AND REPORTS
PART 1201	-	UNIFORM SYSTEM OF ACCOUNTS - RAILROAD COMPANIES
PART 1202	-	UNIFORM SYSTEM OF ACCOUNTS - ELECTRIC RAILWAYS
PART 1203	-	UNIFORM SYSTEM OF ACCOUNTS - EXPRESS COMPANIES
PART 1204	-	UNIFORM SYSTEM OF ACCOUNTS - PIPELINE COMPANIES
PART 1205	-	UNIFORM SYSTEM OF ACCOUNTS - REFRIGERATOR CAR LINES
PART 1206	-	UNIFORM SYSTEM OF ACCOUNTS - COMMON AND CONTRACT MOTOR CARRIERS OF PASSENGERS
PART 1207	-	UNIFORM SYSTEM OF ACCOUNTS - CLASS I AND CLASS II COMMON AND CONTRACT MOTOR CARRIERS OF PROPERTY
PART 1208	-	UNIFORM SYSTEM OF ACCOUNTS - MARITIME CARRIERS
PART 1209	-	UNIFORM SYSTEM OF ACCOUNTS - INLAND AND COASTAL WATERWAYS CARRIERS
PART 1210	-	UNIFORM SYSTEM OF ACCOUNTS - FREIGHT FORWARDERS

At a General Session of the INTERSTATE COMMERCE COMMISSION held at its office in Washington, D. C. on the 24th day of June, 1975.

NO. 36057

ACCOUNTING FOR TREASURY STOCK AT COST, INSTRUCTIONS FOR TRANSACTIONS WITH AFFILIATES AND CHARGES TO BE JUST AND REASONABLE

Consideration having been given to the matters and things involved in this proceeding, and the said Commission, on the date hereof, having made and filed a report containing its findings and conclusions, which report is hereby made a part hereof:

It is ordered, That Parts 1201 through 1210 of Title 49 of the Code of Federal Regulations be, and they are hereby, revised to read as shown in Appendices A through J to the above mentioned report.

It is further ordered, That the prescribed amendments shall be effective January 1, 1975, and reflected in the annual reports to this Commission for the accounting year ending December 1975.

And it is further ordered, That service of this order shall be made on all affected carriers; and to the Governor of every State and to the Public Utilities Commissions or Boards of each State having jurisdiction over transportation; and that notice of this order shall be given to the general public by depositing a copy in the Office of the Secretary, Interstate Commerce Commission, Washington, D.C., and by filing a copy with the Director, Office of the Federal Register, for publication in the Federal Register.

This decision is not a major Federal action significantly affecting the quality of the human environment within the meaning of the National Environmental Policy Act of 1969.

(Authority 49 U.S.C. 12, 20, 304, 913, 1012)

By the Commission.

ROBERT L. OSWALD
Secretary

(SEAL)

No. 36057

AMEND PART 1209 - UNIFORM SYSTEM OF ACCOUNTS FOR INLAND AND COASTAL WATERWAYS CARRIERS

LIST OF INSTRUCTIONS AND ACCOUNTS

Under "General Instructions" the following new line items are added:

* * * * *

13 * * *

14 Transactions with affiliated companies.

15 Charges to be just and reasonable.

Under "Balance Sheet Accounts" the following new line item is added:

* * * * *

280 * * *

280-1 Treasury stock.

GENERAL INSTRUCTION

After the text of instruction 13, "Accounting for income taxes", the following new account numbers, titles and texts are added:

14 Transactions with affiliated companies.

(a) The records and supporting data of all transactions with affiliated companies shall be maintained in a separate file. The types of transactions referred to in this paragraph are for management services or any other type of services rendered, sale or use of facilities or any other type of assets or property. The file shall be maintained so as to enable the carrier, upon a Commission request, to furnish accurate information with supporting documentation about particular transactions within 15 days of the request. We do not intend the file to include data relating to ordinary carrrier operations (e.g. lawful tariff charges).

(b) Each bill rendered by an affiliated company shall state specifically the basis used for determining charges, unless the file contains other information to support the specific basis for charges.

(c) Punched cards, magnetic tapes, discs, or other machine-sensible device used for recording, consolidating, and summarizing accounting transactions and records with a carrier's electronic or automatic data processing system may constitute a file within the meaning of this instruction.

(d) The carrier shall record as the cost of assets or services received from an affiliated supplier, the invoice price (plus any incidental costs related to those transactions) in those cases where the invoice price can be determined from a prevailing price list of the affiliated supplier available to the general public in the normal course of business. If no such price list exists, the charges shall be recorded at the lower of their cost to the originating affiliated supplier (less all applicable valuation reserves in case of asset sales), or their estimated fair market value determined on the basis of a representative study of similar competitive and arm's-length or bargained transactions.

Any difference between actual transaction price and the above, as well as charges that are not transportation related, shall be considered of a financing nature and shall be recorded, accordingly, as nonoperating charges or credits. (See Instruction 15).

(e) Nothing contained herein shall be construed as restraining the carrier from subdividing accounts (see Instruction 1(e)1) for the purpose of recording separately transactions with affiliated companies.

15 Charges to be just and reasonable.

All charges to the accounts prescribed in this system of accounts for carrier property, operating revenues, operating and maintenance expenses and other carrier expenses, shall be just, reasonable and not exceed amounts necessary to the honest and efficient operations and management of carrier business. Payments shall not exceed the fair market value of goods and services acquired in an arm's-length transaction. Any payments in excess of such just and reasonable charges shall be included in account 527, "Miscellaneous income charges".

BALANCE SHEET INSTRUCTIONS

Balance sheet instruction 24 "Company securities owned", is revised to read as follows:

24 Company securities owned.

Securities actually issued or assumed by the carrier which have been reacquired shall be either retired or if not retired, carried in accounts 280-1, "Treasury stock" or 190, "Reacquired and nominally issued long-term debt", unless it is required by provisions of a mortgage or by decision of a trustee, not subject to control by the carrier, that funded debt securities be retained alive in sinking or other special funds. Reacquired securities not retired shall be shown at the amount paid for such stock.

Balance sheet instruction 26 "Discount, expense, and premium on capital stock" is amended by revising paragraphs (d) and (e) and adding (f). As amended the text reads:

26 Discount, expense, and premium on capital stock.

* * * * *

(d) When an issue of capital stock or any part thereof is reacquired, either by purchase or donation, and is retired or cancelled, the par value shall be charged to account 240, "Capital stock". Any excess of reacquisition cost over par value shall be allocated between account 250-2 "Paid-in surplus" and account 280 "Retained income - unappropriated". Any excess of par value over reacquisition cost shall be credited to account 250-2 "Paid-in-surplus".

(e) When an issue of capital stock or any part thereof is reacquired, either by purchase or donation, and is not retired or cancelled, nor properly includible in sinking or other funds, the reacquisition cost shall be charged to account 280-1, "Treasury stock".

(f) When treasury stock is resold, account 280-1, "Treasury stock", shall be credited with the cost paid for it. Gains shall be credited to account 250-2 "Paid-in surplus". Losses shall be charged to account 250-2 "Paid-in surplus" to the extent that previous net gains from sales or retirements of the same class of stock are included therein; otherwise, to account 280 "Retained income - unappropriated".

The title, text, and note of account 191, "Reacquired and nominally issued capital stock", is revised to read as follows:

191 Nominally issued capital stock.

This account shall include the par value of capital stock of the carrier nominally issued. If no par stock, it shall be charged at the pro-rata proportion at which it is credited to account 240, "Capital stock". Stock having no par value classifiable as nominally issued shall be recorded by the number of shares.

NOTE: The accounting for the reacquisition and resale of capital stock actually issued or assumed by the company shall be in accordance with instruction 26 (d) through (f).

Account 240, "Capital stock" will be amended by revising paragraph (e). As amended the text reads:

240 Capital stock.

* * * * *

(e) In case capital stock is reacquired and held in the treasury such stock shall be included in the appropriate accounts in accordance with paragraphs (d) through (f) of instruction 26.

Account 243, "Discount and expense on capital stock", is amended by revising paragraph (b). As amended the text reads:

243 Discount and expense on capital stock.

(a) This account shall include all discount suffered and commissions and expenses incurred in connection with the issuance and sale of capital stock. Records supporting the entries to this account shall be so kept as to show the discount, commissions, and expenses on each class and series of capital stock.

(b) When capital stock is retired and canceled, the amount in this account with respect to the shares of such stock retired and canceled shall be credited hereto.

Account 250-1, "Premiums and assessments on capital stock", is amended by revising paragraph (b). As amended the text reads:

250-1 Premiums and assessments on capital stock.

(a) This account shall include the excess of actual cash value o f the consideration received over the par value and accrued dividends, of par value stock issued, together with assessments against stockholders representing payments in excess of the par or recorded values as included in account 240, "Capital stock".

(b) When capital stock is retired and canceled, the amount in this account with respect to the shares of such stock retired and canceled shall be charged hereto.

After the text of account 280, "Retained income - Unappropriated", the following new account number, title, and text are added:

280-1 Treasury stock.

(a) This account shall include in subdivisions for each class the reacquisition cost of capital stock which has been actually issued or assumed by the carrier, then reacquired, and is neither retired nor cancelled, nor properly includible in sinking or other funds.

(b) This account shall be maintained to reflect separately securities pledged and unpledged.

(c) This account shall be shown on the balance sheet as a deduction in arriving at stockholders' equity.

NOTE A: The accounting for the reacquisition of capital stock and resale thereof shall be in accordance with instruction 26, paragraph (d) through (f).

Account 299 "Form of balance sheet statement", is revised as follows:

299 Form of balance sheet statement.

* * * * *

190 * * *

191 Nominally issued capital stock.

* * * * *

280 * * *
Total retained income_ _ _ _ _ _ ______

280-1 Treasury stock_ _ _ _ _ _ _ _ _ _ _ (_ _ _ _)_
Total capital and surplus_ _ _ _ ____ _____

* * * * *