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## Independence of accountants examining a non-material segment of an international business

United States. Securities and Exchange Commission

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For RELEASE Monday, August 12, 1968

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

SECURITIES ACT OF 1933  
Release No. 4918  
SECURITIES EXCHANGE ACT OF 1934  
Release No. 8379  
HOLDING COMPANY ACT OF 1935  
Release No. 16137  
INVESTMENT COMPANY ACT OF 1940  
Release No. 5462  
ACCOUNTING SERIES  
Release No. 112

INDEPENDENCE OF ACCOUNTANTS  
EXAMINING A NON-MATERIAL SEGMENT OF AN INTERNATIONAL BUSINESS

The Securities and Exchange Commission today announced the publication of a release in its Accounting Series dealing with independence of accountants. The release is concerned with a matter which tends to arise more frequently as United States corporations doing business on an international scale increase in number and their respective operations are conducted in an ever-growing number of geographical areas.

In matters of independence, the Commission has continued to give recognition to the increasing complexities in the business field and the impracticability of attempting to identify in advance all the circumstances under which an accountant might be considered not independent or which would result in a determination not to question his independence. 1/

This approach has had the effect of providing needed flexibility where the decision in any particular situation can be made only after taking into consideration all known relevant circumstances. In Accounting Series Release No. 81 we indicated that in any case where doubt exists the accountant should discuss the facts with the staff. In general this has proved a satisfactory method to administer a segment of the Commission's statutory responsibility which is of significant importance in the public interest and the protection of the investors.

Where a company is engaged in international operations, it requires auditing services in those countries where its divisions or subsidiaries own properties or otherwise conduct business. A division or subsidiary of a United States company (hereafter the "parent company") may conduct business abroad in a geographical area where the parent company's independent public accountants do not practice. Frequently, the importance to the parent company's total enterprise of the division or subsidiary is small, and another accounting firm<sup>2/</sup> (hereafter the "other accounting firm") acceptable to the independent accountants of the parent company may be engaged to examine the financial statements of the division or subsidiary.

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1/ Accounting Series Releases No. 47, January 25, 1944; No. 79, April 8, 1958; and No. 81, December 11, 1958.

2/ In many cases the other accounting firm which has been retained to do the examination will do so through one of its affiliated firms operating abroad.

Inquiry has been made whether in the situation where the financial statements of a division or subsidiary which represents a non-material segment of an international business are examined by another accounting firm or its affiliated firm, Rule 2-01 of Regulation S-X<sup>3/</sup> is construed so as to preclude all the partners of such other accounting firm or its affiliated firm from owning any securities of the parent company or the subsidiary in order for the other accounting firm to be considered independent as to the parent company or the subsidiary.

We believe that the purposes of Rule 2-01 would be adequately served by a less restrictive construction. Insofar as ownership of securities by partners is concerned, the other accounting firm would be held to be not independent only if securities of the parent company or the subsidiary are owned by any of the partners of the other accounting firm or its affiliated firm who are located in the office which makes the examination of the division or subsidiary or who are otherwise engaged in such examination.

This interpretation relates exclusively to the ownership of securities and does not extend to any other relationship proscribed by Rule 2-01.

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<sup>3/</sup> Rule 2-01 of Regulation S-X provides that "an accountant will be considered not independent with respect to any person or any of its parents or subsidiaries in whom he has, or had during the period of report, any direct financial interest or any material indirect financial interest." Where the "accountant" is a firm, the Commission has construed the restriction to apply to each partner of the firm whether or not he has any connection with the examination.

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