

Outline of Remarks by

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before

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Of Cost Accountants

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Outline for Remarks re Proposed Revision  
of Regulation S-X

History of S-X

Prior to S-X requirements contained in forms and general rules.

Regulation promulgated in 1940.

No material changes except Articles 6 and 6A – Investment Trusts.

Changes desirable –

- 1) Investors
- 2) Analysts
- 3) Corporate Officials
- 4) Accountants
- 5) Lawyers
- 6) Underwriters
- 7) The Hoover Committee
- 8) The S.E.C. Staff

Investors – because they allege terms and captions are not understandable; or form is not comparable as between companies in the same industry; or insufficient explanatory data is furnished in specific statements.

Example: Appropriations from income; charges and credits to surplus vs. to income, and vice versa; reconciliation of taxable income with actual net income; treatment of foreign exchange; inclusion of foreign subsidiaries in consolidation; data with respect to cost of pensions.

Analysts – because requirements not specific enough resulting in non-comparable statements.

Example: Rule 3-01 is (1) too lenient because it allows almost any type of statement – particularly income statement, or (2) not lenient enough because it does not allow, for example, single step income statements.

Corporate Officials – for many reasons but especially because at present all Commission rules pertaining to accounting requirements cannot be found in one place; they must look, they say, not only in S-X but also in the Commission’s published opinions or individual cases, in court decisions, in the Accounting Series releases or in specific deficiencies, or even to so-called speeches of the Chief Accountant.

Example: They say it seems to be Commission policy that goodwill should not appear on balance sheets – but we have no rule which so states. Also, why don’t we include more or all generally accepted accounting principles; or why do we include any generally accepted accounting principles?

Accountants – for all the reasons corporate officials have advanced plus some others.

Example: If we endorse the American Institute’s Accounting Research Bulletins, why don’t we include or refer to such releases in S-X?

Lawyers – because they either want specific rules to tie to or want none which will tie them down (and they are not much different than the others in this respect).

Underwriters – because they want issuers to know what our rules are and follow them so that the risk of flare-backs is minimized.

The Hoover Committee – because they feel that our administrative policies should be included in our rules. (The only material criticism of the Commission.)

And finally the SEC Staff – because, if for no other reason, it is much easier to administer specific rules than it is policies.

### Administrative Procedure Act

Provides for review of any proposed rule or change in rule by all interested persons.

Must be published in Federal Register one month in advance.

Hearings may be allowed.

Previous policy.

This is tentative staff proposal.

What we have attempted to do.

- 1) Include as requirements those matters which we have followed as administrative policy. e.g., disclosure of difference between replacement value and book value of inventories on "lifo" basis, disclosure of past-service pension liabilities, description of commitments.
- 2) Include principles recommended in Institute's releases. e.g., treatment of stock dividends (A.R.B. #11), foreign exchange (A.R.B. #4), appropriations (A.R.B. #35).
- 3) Include matters covered by A.S. Releases, e.g., quasi-reorganizations (#25), restrictions on surplus (#35), policy re disclosure vs. change in financial statements (#4).

Items which have caused most discussion in approximately 200 replies.

Pensions (3-24 (e)) – 13<sup>th</sup> Annual Report, pp. 23, 128.

Lifo disclosure (5-02-6-b)

Valuation of assets – adherence to cost (3-12) – 14<sup>th</sup> Annual Report, p. 111

Foreign exchange (3-10) – A.I.A. Research Dept. Bulletin, November 1949.

Status of income tax returns (3-24-i)

Form, order and terminology (3-01)  
(Utilities object to 3-01-b)

Where do we go from here?

Take: Proposed amendment of S-X  
Regulation S-X  
Typical replies  
Accounting Series Releases  
Accounting Research Bulletins  
13<sup>th</sup> & 14<sup>th</sup> Annual Reports