

DETERMINED TO BE AN ADMINISTRATIVE MARKING
E.O. 12065, Section 8-102
By JMV NARS, Date 5/2/2012

PRIVILEGED & CONFIDENTIAL

REQUEST FOR COMMISSION ACTION

Date: 02/12/2002 Control No.: S-2002-132-ES

SUBJECT/S: Intention to Propose Rules on corporate Disclosure

REQUESTED: That the Commission issue a press release announcing its intention to propose rules on corporate disclosure

(x) SERIATIM CONSIDERATION - Joint deliberation by the members of the Commission on this matter is unnecessary, impracticable, or contrary to the requirements of agency business, pursuant to the provisions of 17 CFR 200.42(a).

() DUTY OFFICER CONSIDERATION - Pursuant to the provisions of 17 CFR 200.43(b).

() EMERGENCY CALENDAR CONSIDERATION FOR:

Action Requested By: February 13, 2002

TIMING ISSUES (Complete only if applicable)

() REASON EXPEDITED ACTION IS REQUESTED:

() EXTERNAL DEADLINE:

Requesting Division Director

[Signature]
Secretary

[Signature]
Duty Officer Commissioner

Date: 2/12/02

	Seriatim Commission Action		Disapprd	Duty Officer Action		Deferred for Regular Calendar
	Apprd	Date		Affirmed	Date	
Chairman Pitt	<u>HLP/mm</u>	<u>2/13/02</u>	_____	_____	_____	_____
Commissioner Hunt	<u>ICD/JO</u>	<u>2/12/02</u>	_____	_____	_____	_____
Commissioner Glassman	<u>CHG</u>	<u>2/13/02</u>	_____	_____	_____	_____

Date of Action: 2-13-02

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News Release

SEC TO PROPOSE NEW CORPORATE DISCLOSURE RULES

The Securities and Exchange Commission today announced that it intends to propose changes in corporate disclosure rules as the first in a series of steps designed to improve the financial reporting and disclosure system.

“The steps we announce today represent only a beginning in the realization of an important regulatory agenda,” SEC Chairman Harvey Pitt said. “These steps will provide significant improvements quickly while other proposals are considered. We will be working on our own and together with Congress, the President’s Working Group, companies, investor groups and other interested participants. We anticipate further reform proposals covering financial reporting and disclosure requirements, accounting standard setting, regulation of the auditing process and profession and corporate governance.”

Specifically, the Commission intends to propose rules that will:

- Provide accelerated reporting by companies of transactions by company insiders in company securities, including transactions with the company;
- Accelerate filing by companies of their quarterly and annual reports;
- Expand the list of significant events requiring current disclosure on existing Form 8-K. Such events could include changes in rating agency decisions, obligations that are not currently disclosed and lock-out periods affecting employee stock-ownership plans.
- Add a requirement that public companies post their Exchange Act reports on their Web sites at the same time filed with the SEC, and
- Require disclosure of critical accounting policies in Management’s Discussion and Analysis of Financial Condition and Results of Operations, contained in annual reports.

“Our financial disclosure system is the best in the world,” Pitt said. “Investors can be confident in the system as we continue to work to improve it.”

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DETAILS OF PROPOSED CORPORATE DISCLOSURE RULES

Proposed Amendments for Insider Reporting

The Commission is considering a variety of ways to improve public disclosure of trading activities by executive officers, directors and beneficial owners of 10% of a company's stock.

Under the Securities Exchange Act of 1934, trades must be reported by the tenth day of the month following the month in which the trades occur. That represents a delay of up to 40 days, which is inadequate for today's markets. The Commission supports a legislative solution that would dramatically shorten this period.

In the meantime, given the importance to the marketplace of transactions by corporate executives and directors, the Commission intends to propose that, pursuant to their reporting obligations, companies disclose on a current basis significant transactions in the company's stock by their executive officers and directors.

As a complement to this initiative, the Commission is seeking ways to provide for electronic filing of reports of insider transactions. Direct reporting on the EDGAR system by insiders would entail the distribution and monitoring of literally tens of thousands of personal identification numbers to these insiders. Accordingly, the Commission is considering an approach that would require companies to file electronically information that they receive from insiders, including under new accelerated requirements such as those described above.

In addition, the Commission is re-examining an existing provision in its rules that permits officers and directors that sell stock back to their company to delay reporting until 45 days after the end of the fiscal year in which the transaction took place. This current provision allows a potential reporting delay of many months. To eliminate this delay, the Commission intends to propose that a company report on a current basis any transactions involving securities of the company entered into with any of its executive officers or directors.

Proposed Amendments for Mandated Secondary Market Reporting

The Commission's secondary market disclosure system under the Securities Exchange Act of 1934 requires U.S. public companies to make disclosure at annual and quarterly intervals, with limited, specified events reported on a more current basis. The Commission believes that the time periods for filing under this system need to be shortened and the list of events requiring more current reporting needs to be expanded.

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Annual and Quarterly Reports

The Commission intends to propose that public companies file their annual reports on Form 10-K within 60 days after the end of their fiscal year, rather than 90 days. The Commission also intends to propose that public companies file their quarterly reports on Form 10-Q within 30 days after the end of their first three fiscal quarters, rather than 45 days. The time periods for filing these reports have not changed in over 30 years, despite previous attempts to do so. The significantly reduced time periods for the capture and analysis of information and significant technological advances since these time periods were last revised necessitate a new consideration of the timing of mandated disclosure to the markets.

Current Reports

The Commission believes that markets and investors need more timely access to a greater range of important information concerning public companies than what is required by the existing reporting system. Accordingly, the Commission intends to expand the types of information that companies must report on Form 8-K. Some of the items that the Commission is evaluating for inclusion in these reports include:

- Changes in rating agency decisions and other rating agency contacts;
- Transactions in the company's securities, including derivative securities, with executive officers and directors;
- Defaults and other events that could trigger acceleration of direct or contingent obligations;
- Transactions that result in material direct or contingent obligations not included in a prospectus filed by the company with the Commission;
- Offerings of equity securities not included in a prospectus filed by the company with the Commission;
- Waivers of corporate ethics and conduct rules for officers, directors and other key employees;
- Material modifications to rights of security holders;
- Departure of the company's CEO, CFO, COO or president (or persons in equivalent positions);
- Notices that reliance on a prior audit is no longer permissible, or that the auditor will not consent to use of its report in a Securities Act filing;
- Definitive agreement that is material to the company (negotiations of agreements would be excluded from this requirement unless and until a definitive agreement is entered into);
- Any loss or gain of a material customer or contract;
- Any material write-offs, restructurings or impairments;
- Any material change in accounting policy or estimate;

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- Movement or de-listing of the company's securities from one quotation system or exchange to another; and
- Any material events, including the beginning and end of lock-out periods, regarding the company's employee benefit, retirement and stock ownership plans.

Given the significance of current disclosure of these events to participants in the secondary markets, the Commission intends to propose that companies file reports of these events no later than the second business day following their occurrence. The Commission also is considering whether some of these events require filing by the opening of business on the day after the occurrence of the event.

Disclosure on Company Web Sites

The Commission believes that mandated public company disclosure should be more readily available to investors in a variety of locations. To further this goal, the Commission intends to propose amendments that would require public companies to make their Exchange Act reports available on their Internet web sites, if available, at the same time as they are filed. This requirement would not in any way replace or reduce a company's obligation to file with the Commission.

Disclosures about Critical Accounting Policies

The Commission intends to propose amendments to its rules for Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) to require disclosure about critical accounting policies. As described in a Cautionary Advice Release issued by the Commission on December 12, 2001, critical accounting policies are those that are both most important to the portrayal of a company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The proposals may require public companies to include in their MD&A full explanations, in clear and understandable format and language, of their critical accounting policies, the judgments and uncertainties affecting the application of those policies, and the likelihood that materially different amounts would be reported under different conditions or using different assumptions. The objective of this disclosure would be consistent with the objective of MD&A to provide information on events or uncertainties known to management that would have a material impact on reported financial information. Such disclosure would assist investors in understanding a company's financial condition, changes in financial condition, and results of operations.

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The Commission will issue proposing releases on these matters and solicit public comment with the intent to adopt new rules as quickly as possible.

The anticipated rule proposals are the first steps in the Commission's efforts to improve the current system of financial reporting and disclosure. The Commission is conducting a number of other reviews that likely will result in additional rulemaking.