



**SECURITIES AND
EXCHANGE COMMISSION**
Washington, D. C. 20549
(202) 755-4846



NEWS BACKGROUND

Re: Release No. 33-5550 (Dec. 20, 1974)

SEC Adopts Amendments to Increase

74-11

Disclosure of Auditor-Client Relationships

The Securities and Exchange Commission today adopted amendments to various of its rules and forms that will increase disclosure of relationships between auditors and their clients. The amendments to Regulation 14A of the proxy rules, Regulation S-X, the SEC's accounting rule, and Form 8-K, were originally proposed in Securities Act Release No. 5534 on October 11, 1974. As a result of comments received, some changes were made in the proposals as previously released.

The amendments to Form 8-K and the proxy rules will be effective for filings subsequent to January 31, 1975; the Regulation S-X amendment will be effective with respect to financial statements for fiscal periods beginning on or after January 1, 1975.

The following pages highlight the major changes adopted by the Commission. For a complete understanding of these changes, as well as others not noted in this background release, the text of the release, itself, should be consulted.

Amendments to Form 8-K

1. Reporting and Disclosure of Changes in Accountant

The resignation of an accountant, or his decision not to stand for re-election after completing the current audit, as well as dismissal of the accountant, would be reported by the filing of a Form 8-K. Thus, it is conceivable that a change in accountant would twice be brought to the stockholders' attention: First, when the accountant resigns or declines to stand for re-election; second, when a new accountant is selected.

The filing of a Form 8-K is also required when there is a change in the independent accountant for a significant subsidiary on whom the principal accountant expressed reliance.

2. Adverse opinions, disclaimers, qualifications, disagreements

Form 8-K must be filed to disclose whether the principal accountants' reports for either of the past two years contained an adverse opinion or a disclaimer of opinion or was qualified as to uncertainty, audit scope or accounting principles.

Furthermore, it is intended to require a description of all disagreements, including those where the disagreement is resolved to the satisfaction of the accountant. The term "disagreement" would be interpreted broadly (For details, see Item 5, page 5 of the release). Moreover, the statement as to disagreements must be included in the Form 8-K, itself, rather than in a separate letter attached to the filing to ensure ready availability to the public.

3. Obligation to Report

The accountant is advised that he "might well" bring to the attention of the registrant his obligation to report a change of accountant and, if he becomes aware that the required reporting has not been made, e.g., because he has not been requested to furnish a letter as required by Form 8-K, Item 12(d), he should consider advising the registrant in writing of that responsibility with a copy to the Commission.

Amendments to Regulation S-X

Disclosure is required, by means of a note to the financial statements, of any material disagreement on any matter of accounting principles or practices of financial statement disclosure reported in Item 12 of Form 8-K within 24 months of the date of the most recent financial statements in a filing.

Footnote disclosure is also required of any transactions or events occurring during the fiscal year in which the change of accountants took place, or during the subsequent fiscal year, which are similar to any transactions or events which gave rise to a reported disagreement and are differently accounted for. Where these transactions are material and are accounted for in a manner different from that which the former accountant apparently concluded was required, disclosure must be made of the effect on the financial statements if the accounting method specified by the former accountant had been followed.

Proxy Rule Amendments (Schedule 14A)

1. In order to make stockholders aware of the identity of the independent accountant of record, even where they are not asked to formally approve his selection, the proxy statement must disclose the principal accountant selected or to be recommended to shareholders for election, approval or ratification for the current year.

2. Disclosure is required of the name of the principal accountant for the previous year if different from that selected to recommended for the current year. This is so stockholders will be informed when a change in accountants has occurred and who the independent accountant of record is where no action has been taken to select an accountant for the current year.

3. Disagreements between the accountant and the issuer required to be reported on a Form 8-K during the past year must be disclosed. The issuer must submit the description for the accountant's review, and if he believes that the description is incorrect or incomplete, he may include a brief statement, ordinarily not to exceed 200 words, presenting his view of the disagreement.

4. Disclosure must be made of whether or not representatives of the principal accountants for the current year and the most recently completed fiscal year are expected to be present at the stockholders' meeting with the opportunity to make a statement and respond to questions.