



SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

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COMMISSION PROPOSES FOR COMMENT CHANGE TO SEGMENT REPORTING

The Commission voted today to publish for comment proposed amendments to certain disclosure forms, schedules and rules. This action is intended, in part, to avoid duplication of financial information of the result of the issuance in December, 1976 by the Financial Accounting Standards Board ("FSAB") of Statement of Financial Accounting Standards No. 14, "Financial Reporting for Segments of a Business Enterprise" ("SFAS No. 14"). Further, these proposals will partially implement certain recommendations made by the Advisory Committee on Corporate Disclosure and will propose a new form to establish standard disclosure requirements for certain items required to be presented in standard registration statements, reports and proxy statements.

SFAS No. 14 requires corporations to disclose certain financial information by industry and homogeneous geographical segments for each fiscal year or interim period beginning after December 15, 1976 for which it presents a "complete" set of financial statements (i.e., balance sheet, income statement, statement of source and application of funds and notes to the financial statements). SFAS No. 14 exacts the following information as to each reportable industry segment and as to foreign and domestic operations if the amount of foreign revenue or assets is equal to 10 percent or more of the total related consolidated amounts: revenue, profitability and identifiable assets information. Other related disclosures are also required as to the industry segments. In addition, the amount of export sales must be disclosed if this amount is 10 percent or more of total consolidated sales to unaffiliated customers. One impact of SFAS No. 14 will be that this additional financial information will be required to be audited for those fiscal years or interim periods covered by the auditor's report..

The Commission's principle forms for registration under the Securities Act of 1933 (Forms S-1, S-7) and for reporting (Form 10-K) and registering (Form 10) under the Securities Exchange Act of 1934 require the presentation of line of business and foreign operations information which parallels in part the information required by SFAS No. 14. Therefore, the Commission proposes amendments to avoid any duplication and to integrate the two disclosure provisions. The proposed amendments would revise the present reporting requirements to refer to industry segments in lieu of lines of business and to require disclosure of the amounts of identifiable assets and revenue from intersegment sales or transfers and of related matters in addition

to the revenue and profitability information now required as to lines of business. Registrants would be required to present this information together with reconciliations of the amounts of revenue, operating profit and identifiable assets to the related amounts in the consolidated financial statements of registrants. These proposals would integrate the Commission requirements with the industry segment information called for by SFAS No. 14. Registrants are not required now, nor would they be required under these proposed amendments, to allocate all of the indirect costs to the industry segments. Present provisions require registrants to present income or loss information before income taxes and extraordinary items. The proposed amendments and SFAS No. 14 require registrants to disclose operating profit or loss (i.e., revenue less all operating expenses) as to each industry segment.

In addition, the proposals would require the presentation of revenue, profitability and identifiable assets information as to foreign and domestic operations together with the appropriate reconciliations to related consolidated amounts and disclosure of the amount of export sales. To the extent that the information furnished in response to these proposed amendments meets the requirements of SFAS No. 14, registrants would be able to avoid duplicative reporting by referring to this disclosure in the notes to the financial statements.

The Commission forms presently require disclosure of financial information relating to lines of business for a period of five years. SFAS No. 14, however, is only applicable to "complete" financial statements and the Commission forms require the inclusion of "complete" financial statements for at most 2 fiscal years. The proposed amendments would require the presentation of financial information relating to industry segments for five years in order to continue the disclosure for the same period as is now required by the SEC forms. However, the Commission has invited comment on whether the proposed requirement should apply only retroactively.

Five year financial information as to foreign and domestic operations, including the amount of export sales, would also be required by the proposed amendments, for the purpose of year to year comparison. This information, however, would be required only for fiscal years ending after December 15, 1977.

The proposed amendments direct registrants to consider the provisions of SFAS No. 14 in identifying industry segments and provide that the disclosures required by SFAS No. 14 generally establish the type of information to be furnished as to industry and homogeneous geographical segments. The financial information required by

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the proposed amendments differs from SFAS No. 14 in two specific areas of disclosure. Financial information relating to a dominant industry segment would be required by the proposed amendments if the segment is or was experiencing a ~~decline~~ in sales or market share and/or profitability during either of registrant's most recent two fiscal years. In addition, the proposed amendments would require registrants to set forth information relating to the pricing and recipients of inter-segment and intra-enterprise sales or transfers.

The Commission also proposes to amend Rule 14a-3 and Schedule 14A of Regulation 14A to require the presentation of segment financial information in annual reports to shareholders and in certain proxy and information statements. This action would codify and clarify the position of the staff of the Commission's Division of Corporation finance in this regard.

The Advisory Committee recently recommended that the Commission take action to (1) integrate the textual disclosure required in Commission forms with the segmented financial statement disclosures required by SFAS No. 14 and (2) require the inclusion of segmented financial statement disclosure in interim reports on Form 10-Q. In order to implement the Advisory Committee's first recommendation and to improve segment disclosure for the benefit of investors, the Commission proposes amendments which require the presentation within the description of business required by Forms S-1, 10 and 10-K of textual information relating to certain matters required by the forms by industry segment where material to the segment. With respect to the Advisory Committee's second recommendation, the Commission invites comments on the need for the additional disclosure.

In view of the extensive nature of the proposed amendments, the Commission is taking this opportunity to propose the development of a new, integrated disclosure form, Form S-K, whose first two items would be the items affected by the proposals discussed above. Forms S-1, S-7, 10 and 10-K, Rule 14a-3 and Schedule 14A would be amended to require the disclosure called for by the appropriate provisions of the items included in the proposed new form which relate to the description of business and to the company's properties. Future amendments affecting various disclosure forms would be implemented by including the relevant item in the Form S-K and revising the forms to refer to the S-K item. This proposal should improve and simplify significantly the disclosure process by eliminating immaterial differences among the disclosure requirements in various registration and reporting forms.