



SECURITIES AND EXCHANGE COMMISSION

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COMMISSION ADOPTS SEGMENT REPORTING REQUIREMENT AND NEW, INTEGRATED DISCLOSURE REGULATION

The Commission announced today adoption of "industry segment" reporting requirements for registered corporations. At the same time, it announced it has adopted amendments to certain reporting forms which would begin implementation of a new, integrated disclosure regulation which should help streamline the disclosure system and result in more uniform information. Both steps partially implement certain recommendations made by the Advisory Committee on Corporate Disclosure.

The segment reporting amendments announced today are designed to coordinate information about industry and geographic segments which corporations report in registration statements, annual reports, proxy statements and other disclosure documents, with that contained in financial statements prepared in accordance with generally accepted accounting principles. The segment reporting requirements will become part of a new disclosure Regulation S-K. Eventually, Regulation S-K will form the underlying information base for each corporation required to make initial and periodic disclosures. This "continuous reporting" system should streamline preparation of disclosure documents, and assure uniform information for investors and other information users. While the Commission's action announced today adopts only two items of the regulation, additional items and instructions to the regulation will be adopted as provisions involving more than one of the various disclosure forms are amended. The provisions of Regulation S-K are to be used together with and to the extent provided in the existing disclosure forms and rules.

Concomitant with the adoption of the items of Regulation S-K, the Commission has adopted amendments to Forms S-1, 10 and 10-K which provide that the registration statement or report should include descriptions of the business and properties of the company prepared in accordance with the provisions of Regulation S-K. Amendments to Forms

S-7 and S-8, Schedule 14A and Rules 14a-3 and 14c-3 provide that the five year financial information about industry segments, classes of similar products or services, geographic areas and export sales of the registrant must be presented in accordance with the appropriate provisions of Regulation S-K.

The amendments are effective for documents which contain financial statements for fiscal years ending after March 31, 1978. Notwithstanding this effective date, companies filing under the securities acts should include in the description of their business the revenue and profit data with respect to industry segments presented in their financial statements for their fiscal year beginning after December 15, 1976 in lieu of the required line of business data to avoid inconsistency with the financial statements. In addition, the Commission strongly encourages companies to comply with the amendments earlier to the extent practicable because of the usefulness of segment and geographic area information to investors.

The industry segment reporting requirements will make disclosure requirements of the Commission generally consistent with the requirements of Statement of Financial Accounting Standards No. 14, issued by the Financial Accounting Standards Board in December, 1976 and amended in November, 1977. Under SFAS No. 14, corporations are required to include in their financial statements certain financial information about their reportable industry segments and geographic areas, and the amount of their export sales. SFAS No. 14 is applicable to financial statements for fiscal years which began after December 15, 1976.

The amendments require registrants to present for a five year historical period revenue, profit and asset information relating to their industry segments and geographic areas. The information to be disclosed is the same data which is or was presented in the financial statements of the corporation. Although industry segment information is required for five years, registrants may substitute their previously reported line of business information in lieu of the segment data for fiscal years beginning before December 16, 1976. Corporations filing under the securities acts for the first time, however, would be required to present the historical information for industry segments. Geographic area and export sales data is only required for fiscal years beginning after December 15, 1976.

As originally proposed in May, 1977, the amendments would have required detailed information about intersegment and intraenterprise transfers and segment information for registrants' dominant segments under certain circumstances. The Commission reconsidered these proposals and substantially revised them. Information about intersegment and intraenterprise transfers is only required when: (1) the transfers are made at prices substantially higher or lower than prevailing market prices for similar products or services or at prices substantially higher or lower than those charged to unaffiliated parties for similar products or services; and (2) the effect of this pricing practice on the revenue and/or profit or loss of a segment or geographic area is quantitatively or qualitatively material to an understanding of the registrant's business taken as a whole. When these conditions are satisfied, the information required is a general discussion about the effect of such pricing practices on revenue and/or operating profits, rather than detailed information about such transfers.

The original proposal would also have required segment information for certain interim periods for which financial data is presented in a document. The Commission reconsidered this proposal and the amendments require a narrative discussion of interim segment information to the extent that this data suggests that the five year segment financial data may not be indicative of current or future operations of the segment.

Segment information for a dominant segment is not required by SFAS No. 14 and these amendments do not require the presentation of segment information for a dominant segment. Existing disclosure provisions require management to discuss the summary of earnings. This discussion should include an analysis of the performance of a dominant segment if management believes that the performance of the dominant segment during one of the years discussed in the management's discussion and analysis of the summary of earnings may mean that the historical operations or earnings as reported in the summary or earnings are not indicative of current or future operations or earnings.

The amendments also require companies to focus on their industry segments in describing their business. Various items of information should be discussed as to the industry segments to the extent they are material to an

understanding of the business of the company taken as whole. The original proposal might have required more detailed descriptions of the various industry segments of a company. It was changed because the Commission believes that companies should be required to disclose only that information which is material to an understanding of its business taken as a whole.

The amendments provide that companies should consider both quantitative and qualitative factors in determining what information is material and should be disclosed about their industry segments, geographic areas and export sales. Various factors which should be considered in making this determination are the significance, the pervasiveness and the impact of the matter on the company's business. As a result of this analysis of both quantitative and qualitative factors, situations may arise when it would be appropriate to disclose information about intersegment and intraenterprise transfers; interim periods; industry segments; geographic areas; or export sales, although the information in quantitative terms may not appear significant to an understanding of the company's business taken as a whole.