

1950

Notice of proposal to amend regulation S-X

United States. Securities and Exchange Commission

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Recommended Citation

United States. Securities and Exchange Commission, "Notice of proposal to amend regulation S-X" (1950). *Federal Publications*. 336.
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For IMMEDIATE Release Wednesday, July 12, 1950

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C.

SECURITIES ACT OF 1933

Release No. 3381

SECURITIES EXCHANGE ACT OF 1934

Release No. 4465

INVESTMENT COMPANY ACT OF 1940

Release No. 1485

ACCOUNTING SERIES

Release No. 69

NOTICE OF PROPOSAL TO AMEND REGULATION S-X

Notice is hereby given that the Securities and Exchange Commission, pursuant to authority conferred upon it by the Securities Act of 1933, particularly Sections 6, 7, 8, 10 and 19 (a) thereof, the Securities Exchange Act of 1934, particularly Sections 12, 13, 15 (d) and 23 (a) thereof, and the Investment Company Act of 1940, particularly Sections 8, 30, 31 (c) and 38 (a) thereof, has under consideration a proposal to revise Articles 1, 2, 3, 4, 5 and 11 of Regulation S-X to read as follows:

Rule 1-01. Application of Regulation S-X.

This regulation shall govern the form and content of all financial statements required to be filed as part of--

(a) Registration statements under the Securities Act of 1933, filed on form S-1, S-2, S-3, S-4, S-5, S-6, or S-11, except as otherwise specifically provided in such forms;

(b) Applications for registration of securities under the Securities Exchange Act of 1934, filed on form 8-A, 8-B, 10, or 14;

(c) Supplemental or periodic reports under section 13 of the Securities Exchange Act of 1934 filed on form 8-K, 9-K, 10-K, 14-K, or U5-K;

(d) Supplemental or periodic reports under section 15 (d) of the Securities Exchange Act of 1934, filed on form 2-MD, 4-MD, or U5-MD; and

(e) Registration statements and annual reports under the Investment Company Act of 1940.

Rule 1-02. Definitions of terms used in Regulation S-X.

Unless the context otherwise requires, terms defined in the General Rules and Regulations or in the instructions to the applicable form, when used in regulation S-X, shall have the respective meanings given in such instructions or rules. In addition the following terms shall have the meanings indicated in this rule unless the context otherwise requires:

Equity security.--The term "equity security" means any stock or similar security; or any security convertible, with or without consideration, into such a security, or carrying any warrant or right to subscribe to or purchase such a security; or any such warrant or right.

Principal holders of equity securities.--The term "principal holders of equity securities," used in respect of a particular registration statement or report, means the persons named in the item of such statement or report calling for holders of record or beneficial owners of more than 10 per cent of any class of equity securities. If the particular statement or report contains no such item, the term means the persons named in the most recent related registration statement, application or report of the registrant which contains such an item.

Quasi-reorganization.--The term "quasi-reorganization" means the corporate procedure in the course of which a company without the creation of a new corporate entity, and without the intervention of formal court proceedings, is enabled to eliminate a deficit whether resulting from operations or the recognition of other losses or both and to establish a new earned surplus account for the accumulation of earnings subsequent to the date selected as the effective date of the quasi-reorganization.

ARTICLE 2. CERTIFICATION

Rule 2-01. Qualifications of accountants.

(a) The Commission will not recognize any person as a certified public accountant who is not duly registered and in good standing as such under the laws of the place of his residence or principal office. The Commission will not recognize any person as a public accountant who is not in good standing and entitled to practice as such under the laws of the place of his residence or principal office.

(b) The Commission will not recognize any certified public accountant or public accountant as independent who is not in fact independent. For example, an accountant will not be considered independent with respect to any person, or any affiliate thereof, in whom he has any financial interest, direct or indirect, or with whom he is, or was during the period of report, connected as a promoter, underwriter, voting trustee, director, officer, or employee.

(c) In determining whether an accountant is in fact independent with respect to a particular registrant, the Commission will give appropriate consideration to all relevant circumstances including evidence bearing on all relationships between the accountant and that registrant or any affiliate thereof, and will not confine itself to the relationships existing in connection with the filing of reports with the Commission.

Rule 2-02. Accountants' certificates.

(a) Technical requirements.--The accountant's certificate shall be dated, shall be signed manually, and shall identify without detailed enumeration the financial statements and schedules covered by the certificate.

(b) Representations as to the audit.--The accountant's certificate (i) shall state whether the audit was made in accordance with generally accepted auditing standards; and (ii) shall designate any auditing procedures generally recognized as normal, or deemed necessary by the accountant under the circumstances of a particular case, which have been omitted, and the reasons for their omission.

In determining the scope of the audit necessary, consideration shall be given as to whether the system of internal control is adequate. Due weight may be given to an internal system of audit regularly maintained by means of auditors employed on the registrant's own staff. The accountant shall review the accounting procedures purported to be followed by the person or persons whose statements are certified and by appropriate measures shall satisfy himself that such accounting procedures are in fact being followed.

Nothing in this rule shall be construed to imply authority for the omission of any procedure which independent accountants would ordinarily employ in the course of an audit made for the purpose of expressing the opinions required by paragraph (c) of this rule.

(c) Opinions to be expressed.--The accountant's certificate shall state clearly: (i) the opinion of the accountant in respect of the financial statements covered by the certificate and the accounting principles and practices reflected therein; (ii) the opinion of the accountant as to any material changes in accounting principles or practices, or method of applying the accounting principles or practices, or adjustments of the accounts, required to be set forth by rule 3-07; and (iii) the nature of, and the opinion of the accountant as to, any material differences between the accounting principles and practices reflected in the financial statements and those reflected in the accounts after the entry of adjustments for the period under review.

(d) Exceptions.--Any matters to which the accountant takes exception shall be clearly identified, the exception thereto specifically and clearly stated, and, to the extent practicable, the effect of each such exception on the related financial statements given.

Rule 2-03. Certification by foreign government auditors.

Notwithstanding any requirements as to certification by independent accountants, the financial statements of any foreign governmental agency may be certified by the regular and customary auditing staff of the respective government, if public financial statements of such governmental agency are customarily certified by such auditing staff.

Rule 2-04. Certification of financial statements of persons other than the registrant.

If a registrant is required to file financial statements of any other person, such statements need not be certified if certification of such statements would not be required if such person were itself a registrant.

Rule 2-05. Certification of financial statements by more than one accountant.

If any required examination of financial statements of any branches or consolidated subsidiaries of the registrant has been made by independent public accountants other than the principal accountants for the registrant, certificates of such other accountants prepared in accordance with rule 2-02 should be furnished. However, in respect of such examinations relating to foreign branches or foreign consolidated subsidiaries, or relating to domestic consolidated subsidiaries which in the aggregate are not significant, the certificates of the other accountants need not be furnished if the principal certifying accountants upon review, analysis, and investigation of reports of such other accountants have satisfied themselves that the other accountants have in all respects met the requirements of this article and accept the report of such other accountants in the same manner as though the principal accountants had performed the audit, provided a definite statement to this effect is included in the certificate of the principal accountants.

ARTICLE 3. RULES OF GENERAL APPLICATION

Rule 3-01. Form, order and terminology.

(a) Financial statements may be filed in such form and order, and may use such generally accepted terminology, as will best indicate their significance and character in the light of the provisions applicable thereto.

(b) All money amounts required to be shown in financial statements and schedules may be expressed in even dollars or thousands of dollars, provided that, in the latter case, an indication to that effect is inserted immediately beneath the caption of the statement or schedule, or at the top of each money column. Zeros need not be inserted for the omitted figures. The individual amounts shown need not be adjusted to the nearest dollar or thousand if in a footnote it is stated that the failure of the items to add to the totals shown is due to the dropping of amounts less than \$1.00 or \$1,000, as appropriate.

Rule 3-02. Inapplicable captions.

No caption need be shown in any financial statement or schedule as to which the items and conditions are not present. If the amount which would otherwise be required to be shown under any caption is not material, the caption need not be separately set forth.

Rule 3-03. Omission of unrequired or inapplicable financial statements and schedules.

(a) Financial statements and schedules not required or inapplicable because the required matter is not present need not be filed.

(b) Financial statements and schedules omitted and the reasons for their omission shall be indicated in the list of financial statements required by the applicable form.

Rule 3-04. Omission of substantially identical notes.

If a note covering substantially the same subject matter is required with respect to two or more financial statements, the required information may be shown in a note to only one of such statements, provided that a clear and specific reference thereto is made in each of the other statements with respect to which the note is required.

Rule 3-05. Omission of names of certain subsidiaries.

Notwithstanding the requirements as to particular statements, subsidiaries, the names of which are permitted to be omitted from the list of affiliates required by the applicable form, need not be named in any financial statement. Reasonable grouping of such subsidiaries may be made, with an explanatory group caption which shall state the number of subsidiaries included in the group.

Rule 3-06. Additional information.

The information required with respect to any statement shall be furnished as a minimum requirement to which shall be added such further material information as is necessary to make the required statements, in the light of the circumstances under which they are made, not misleading. This rule shall be applicable to all statements required to be filed, including copies of statements required to be filed in the first instance with other governmental agencies.

Rule 3-07. Changes in accounting principles and practices and retroactive adjustments of accounts.

(a) Any change in accounting principle or practice, or in the method of applying any accounting principle or practice, made during any period for which financial statements are filed which materially affects comparability of such financial statements with those of prior or future periods, and the effect thereof upon the net income for each period for which financial statements are filed, shall be disclosed in a note to the appropriate financial statement.

(b) Any material retroactive adjustment made during any period for which financial statements are filed, and the effect thereof upon net income of prior periods shall be disclosed in a note to the appropriate financial statement.

Rule 3-08. Summary of accounting principles and practices.

Information required in notes as to accounting principles and practices reflected in the financial statements may be presented in the form of a single statement. In such case specific references shall be made in the appropriate financial statements to the applicable portion of such single statement.

Rule 3-09. Foreign operations and foreign exchange.

(a) The basis of conversion of all items in foreign currencies shall be stated, and the amount and disposition of the resulting unrealized profit or loss shown, if material.

(b) Realized losses or gains on foreign exchange shall be charged or credited to income.

(c) Provision for declines in conversion value of foreign net current assets shall be made from income.

Rule 3-10. Opening balances.

Instructions which permit the balance of an account at the beginning of the period for which financial statements are being filed to be "as per the accounts" shall not be applicable with respect to companies which have previously filed financial statements under the Securities Act of

1933 or the Securities Exchange Act of 1934. As to such companies, however, balances as per accounts may be taken as of the close of the most recent period for which certified financial statements are on file.

Rule 3-11. Basis of accounting for assets.

(a) Except as otherwise specifically provided, accounting for all assets shall be based on cost.

(b) Due consideration shall be given to evidence of loss or impairment of utility value and, where such evidence indicates an apparently permanent decline, recognition thereof shall be made by means of an appropriate write-down or by the establishment of an appropriate reserve.

Rule 3-12. Valuation and qualifying reserves.

Valuation and qualifying reserves shall be shown separately in the financial statements as deductions from the specific assets to which they apply.

Rule 3-13. Basis of determining amounts--book value.

If an instruction requires a statement as to "the basis of determining the amount," the basis shall be stated specifically. The term "book value" will not be sufficiently explanatory unless, in a particular instruction, it is stated to be acceptable with respect to a particular item.

Rule 3-14. Current assets.

Items classed as current assets shall be generally realizable within one year. However, generally recognized trade practices may be followed with respect to the inclusion of items such as instalment receivables or inventories long in process, provided an appropriate explanation of the circumstances is made and, if practicable, an estimate is given of the amount not realizable within one year.

Rule 3-15. Current liabilities.

Items due and payable within one year shall in general be classed as current liabilities. However, generally recognized trade practices may be followed with respect to the exclusion of items such as customers' deposits and deferred income, provided an appropriate explanation of the circumstances is made.

Rule 3-16. Reacquired evidences of indebtedness.

Reacquired evidences of indebtedness, if material in amount, shall be shown separately as a deduction, under the appropriate liability caption. However, reacquired evidences of indebtedness held for pension and other special funds not related to the particular issues may be carried

as assets of such funds, provided that there be stated parenthetically the amount of such evidences of indebtedness, the cost thereof, and the amount at which carried.

Rule 3-17. Reacquired shares.

(a) Reacquired shares shall be shown separately as a deduction from capital shares, or from the total of capital shares and surplus, or from surplus, at either par or stated value, or cost, as circumstances require.

(b) Gain resulting from transactions in reacquired shares shall be credited to paid-in surplus.

Rule 3-18. Discount on capital shares.

Discount on capital shares, if material in amount, shall be shown separately as a deduction from capital shares or from surplus, as circumstances require, with an indication of what provisions have been made for writing off this item.

Rule 3-19. Quasi-reorganizations.

(a) A quasi-reorganization may not be considered to have been effected unless at least all of the following conditions exist:

- (1) Earned surplus as of the effective date is exhausted;
- (2) Upon consummation no deficit exists in any surplus account;

(3) The entire procedure is made known to all persons entitled to vote on matters of general corporate policy and the appropriate consents to the particular transactions are obtained in advance in accordance with the applicable law and charter provisions; and

(4) The procedure accomplishes with respect to the accounts substantially what would be accomplished in a reorganization by legal proceedings--namely, the appropriate modifications of capital and capital surplus, resulting from the restatement of assets in terms of present conditions.

(b) In such a procedure the reductions in the carrying value of assets at the effective date may not be made beyond a point which gives appropriate recognition to conditions which appear to have resulted in relatively permanent reductions in asset values; as for example, complete or partial obsolescence, lessened utility value, reduction in investment value due to changed economic conditions, or, in the case of current assets, declines in indicated realization value.

(c) Such a procedure is not to be employed recurrently but only under circumstances which would justify an actual reorganization or formation of a new corporation, particularly if the sole or principal purpose is the elimination of a deficit in earned surplus resulting from operating losses.

(d) In the case of the quasi-reorganization of a parent company the effective date should be recognized as having the significance of a date of acquisition of control of subsidiaries.

(e) Subsequent to the effective date of a quasi-reorganization any description of earned surplus shall indicate the point of time from which the new earned surplus dates and for a period of at least three years shall indicate the total amount of the deficit eliminated.

Rule 3-20. Commitments.

(a) If material in amount the pertinent facts relative to firm commitments for the acquisition of permanent investments and fixed assets and for the purchase, repurchase, construction, or rental of assets under long-term leases shall be stated briefly in the balance sheet or in footnotes referred to therein.

(b) Where the rental or obligations under long-term leases are material there shall be shown the amounts of annual rentals under such leases with some indication of the periods for which they are payable, together with any important obligation assumed or guarantee made in connection therewith. If the rentals are conditional, state the minimum annual amounts.

(c) If material in amount accrued net losses on commitments covering the purchase of goods for inventory, measured in the same manner as are inventory losses, and indicated permanent declines in utility value of other assets subject to commitments, shall be recognized in the accounts.

Rule 3-21. Accounting principles--authoritative support therefor.

Financial statements prepared in accordance with accounting principles for which there is no substantial authoritative support will be presumed to be misleading or inaccurate despite disclosures contained in the certificate of the accountant or in footnotes to the statements provided the matters involved are material. In cases where there is a difference of opinion between the Commission and the registrant as to the proper principles of accounting to be followed, disclosure will not be accepted in lieu of correction of the financial statements themselves unless the points involved are such that there is substantial authoritative support for the practices followed by the registrant and the position of the Commission has not previously been expressed in rules, regulations, or other official releases of the Commission, including the accounting series releases.

Rule 3-22. General notes to balance sheets.

If present in regard to the person for which the statement is filed the following shall be set forth in the balance sheet or in notes thereto:

(a) Assets subject to lien.--The amounts of assets mortgaged, pledged, or otherwise subject to lien shall be designated and the obligations secured shall be briefly identified. However, in the case of commercial, industrial, and public utility companies this rule need not be followed with respect to assets (other than current assets and securities) given as security for bonds, mortgages and similar debt.

(b) Intercompany profits and losses.--The effect, if material, upon any balance sheet item of profits or losses resulting from transactions between affiliated companies shall be stated. If impracticable of accurate determination, without unreasonable effort or expense, give an estimate or explain.

(c) Defaults.--The facts and amounts concerning any default in principal, interest, sinking fund, or redemption provisions with respect to any issue of securities or credit agreements, or any breach of covenant of a related indenture or agreement, shall be stated. Notation of such default or breach of covenant shall be made in the balance sheet.

(d) Preferred shares.--

(1) If callable, the date or dates and the amount per share at which such shares are callable shall be stated.

(2) Arrears in cumulative dividends per share and in total for each class of shares shall be stated.

(3) Preferences on involuntary liquidation, if other than the par or stated value, shall be shown. When the excess involved is material there shall be shown (i) the difference between the aggregate preference on involuntary liquidation and the aggregate par or stated value; (ii) a statement that this difference, plus any arrears in dividends, exceeds the sum of the par or stated value of the junior capital shares and the surplus, if such is the case; and (iii) a statement as to the existence, or absence, of any restrictions upon surplus growing out of the fact that upon involuntary liquidation the preference of the preferred shares exceeds its par or stated value.

(e) Pension and retirement plans.--

(1) The terms and conditions of any employee pension or retirement plan shall be stated briefly.

(2) If a plan legally may be discontinued at will and for this reason it has not been funded or otherwise provided for in the accounts the estimated amount required to fund or otherwise provide for the past service cost of the plan, together with the estimated annual cost of the plan, shall be disclosed.

(f) Restrictions which limit the availability of surplus for dividend purposes.--Describe any such restriction, other than as reported in (d) above, indicating briefly its source, its pertinent provisions, and, where appropriate and determinable, the amount of the surplus so restricted.

(g) Contingent liabilities.--A brief statement as to material contingent liabilities not reflected in the balance sheet shall be made. In the case of guarantees of securities of other issuers a reference to the appropriate schedule shall be included.

Rule 3-23. General notes to profit and loss statements.

If present in regard to the person for which the statement is filed, the following shall be set forth in the profit and loss statement or in notes thereto:

(a) Installment or deferred sales.--If a material amount of sales is made on a deferred basis, such as installment sales or sales of equipment long in process of manufacture, the basis of taking profits into income shall be stated.

(b) Intercompany profits and losses.--The amount, if material, of any profits or losses resulting from transactions between affiliated companies shall be stated. If impracticable of determination without unreasonable effort and expense, give an estimate or explain.

(c) Depreciation, depletion, obsolescence, and amortization.--State for the period for which profit and loss statements are filed, the policy followed with respect to--

(1) The provision for depreciation, depletion, and obsolescence of physical properties or reserves created in lieu thereof, including the methods and, if practicable, the rates used in computing the annual amounts;

(2) The provision for depreciation and amortization of intangibles, or reserves created in lieu thereof, including the methods and, if practicable, the rates used in computing the annual amounts;

(3) The accounting treatment for maintenance, repairs, renewals, and betterments; and

(4) The adjustment of the accumulated reserves for depreciation, depletion, obsolescence, amortization or reserves in lieu thereof, at the time the properties are retired or otherwise disposed of including the disposition made of any profit or loss on sale of such properties.

(d) Capital shares sold, offered for sale or optioned to officers, directors and employees.--A brief summary of each such transaction, including with respect to each category the number of shares and the price. Any excess of the fair value of (1) shares sold, at the date of sale, over the sales price, or (2) shares offered for sale, at the date the offer was accepted, over the offering price, or (3) shares optioned, at the date the option right became the property of the grantee, over the option price, should be reflected in the profit and loss statement as compensation.

ARTICLE 4 CONSOLIDATED AND COMBINED
STATEMENTS

Rule 4-01. Application of Article 4.

This article shall govern the preparation of consolidated and combined statements.

Rule 4-02. Consolidated statements of the registrant and its subsidiaries.

The registrant shall follow in the consolidated statements principles of inclusion or exclusion which will clearly exhibit the financial condition and results of operations of the registrant and its subsidiaries: Provided, however, That--

- (a) The registrant shall not consolidate any subsidiary which is not a majority-owned subsidiary;
- (b) If the statements of a subsidiary are as of a date or for periods different from those of the registrant, such subsidiary may be consolidated only if all the following conditions exist: (1) Such difference is not more than 93 days; (2) the closing date of the subsidiary is expressly indicated; (3) the necessity for the use of different closing dates is briefly explained; and (4) any changes in the respective fiscal periods of the registrant and the subsidiary made during the period of report are clearly indicated, together with the manner of treatment;
- (c) Consolidation of foreign subsidiaries.--Due consideration shall be given to the propriety of consolidating with domestic corporations foreign subsidiaries whose operations are effected in terms of restricted foreign currencies. If consolidated disclosure should be made as to the effect, insofar as this can be reasonably determined, of foreign exchange restrictions upon the consolidated financial position and operating results of the registrant and its subsidiaries.

Rule 4-03. Group statements of subsidiaries not consolidated.

For majority-owned subsidiaries not consolidated with the registrant there may be filed statements in which such subsidiaries are consolidated or combined in one or more groups pursuant to principles of inclusion or exclusion which will clearly exhibit the financial condition and results of operations of the group or groups. If it is essential to a properly summarized presentation of the facts, such consolidated or combined statement shall be filed.

Rule 4-04. Statement as to principle of consolidation or combination followed.

- (a) The principle adopted in determining the inclusion and exclusion of subsidiaries in each consolidated balance sheet and in each group balance sheet of unconsolidated subsidiaries shall be stated in a note to the respective balance sheet.

(b) As to each consolidated statement and as to each group statement of unconsolidated subsidiaries, a statement shall be made as to whether there have been included or excluded any persons not similarly treated in the corresponding statement for the preceding fiscal period filed with the Commission. If the answer to the foregoing is in the affirmative, the names of such persons shall be given.

Rule 4-05. Reconciliation of investment of parent in subsidiaries and fifty per cent owned persons and equity of parent in net assets of subsidiaries.

(a) Consolidated subsidiaries.--There shall be set forth in a note to each consolidated balance sheet filed a statement of any difference between the investment in subsidiaries consolidated, as shown by the parent's books, and the parent's equity in the net assets of such subsidiaries, as shown by the books of the latter. If any such difference exists, there shall be set forth the amount of the difference and the disposition made thereof in preparing the consolidated statements, naming the balance sheet captions and stating the amount included in each.

(b) Subsidiaries not consolidated.-- A statement shall be made of the amount of any difference between the investment of the parent and its consolidated subsidiaries, as shown by their books, in the unconsolidated subsidiaries and fifty per cent owned persons for which statements are filed and the equity of such persons in the net assets of such unconsolidated subsidiaries, as shown by the books of the latter.

Rule 4-06. Reconciliation of dividends received from, and earnings of, unconsolidated subsidiaries.

The proportion of the sum of, or difference between, current earnings or losses and the dividends declared or paid by the unconsolidated subsidiaries, required to be included in the schedule prescribed by rule 12-17 that is applicable to the parent and its consolidated subsidiaries shall be set forth in a note to each consolidated profit and loss statement.

Rule 4-07. Minority interests.

(a) Minority interests in the net worth of subsidiaries consolidated, shall be shown in each consolidated balance sheet. Separation shall be made between the minority interest in the capital and in the surplus.

(b) The aggregate amount of profit and loss accruing to minority interests shall be stated separately in each consolidated profit and loss statement.

Rule 4-08. Intercompany items and transactions.

In general, intercompany items and transactions, if material in amount, shall be eliminated. If not eliminated, a statement of the reasons and the methods of treatment shall be made.

Rule 4-09. Special requirement as to insurance companies.

(a) Except as provided in paragraph (b) of this rule, the statements of an insurance company shall not be consolidated or combined with the statements of any person.

(b) The statements of an insurance company other than a life insurance company may be consolidated if all of the following conditions exist:

(1) The insurance company is a totally-held subsidiary of the top parent included in the consolidation;

(2) Such top parent is not an insurance company, investment company, or bank holding company;

(3) The insurance company engages in no business of a material amount other than the insuring of risks arising in the ordinary course of business of such top parent and its other subsidiaries; and

(4) Separate financial statements for the insurance company are filed.

Rule 4-11. Special requirements as to registrants which are bank holding companies.

If the registrant is a bank holding company--

(a) Statements of the registrant may be consolidated only with the statements of subsidiaries which are bank holding companies.

(b) A consolidated statement of the registrant and any of its bank holding company subsidiaries shall not be filed unless accompanied by a consolidating statement which sets forth the individual statements of each subsidiary included in the consolidated statement.

(c) Consolidated or combined statements filed for subsidiaries not consolidated with the registrant shall not include any bank holding companies unless accompanied by consolidating or combining statements which set forth the individual statements of each included bank holding company subsidiary.

Rule 4-12. Special requirements as to banks.

If two or more majority-owned subsidiaries of a person are banks and are directly owned by a single parent, there shall be filed, in lieu of individual statements for such subsidiaries, combined statements showing the minority interest separately and eliminating any material inter-bank items; except that the statements of any such subsidiary which on the date of filing is a closed or liquidating bank shall not be included in any combined statement. Except as provided in the preceding sentence, statements of banks shall not be included in any consolidated or combined statements.

Rule 4-13. Special requirements as to public utility holding companies.

There shall be shown in the consolidated balance sheet of a public utility holding company the difference between the amount at which the parent's investment is carried and the underlying book equity of subsidiaries as at the respective dates of acquisition.

Rule 4-14. Special requirements as to commercial, industrial and mining companies in the promotional, exploratory or development stage subject to Article 5A.

The financial statements required by Article 5A shall not be prepared on a consolidated basis but shall, insofar as practicable, be prepared so as to show the information for the registrant and each of its subsidiaries in parallel columns.

ARTICLE 5. COMMERCIAL AND INDUSTRIAL COMPANIES

Rule 5-01. Application of Article 5.

(a) This article shall be applicable to financial statements filed for all persons except--

(1) Commercial, industrial, and mining companies in the promotional, exploratory or development stage (see article 5A).

(2) Management investment companies (see article 6).

(3) Unit investment trusts (see article 6A).

(4) Insurance companies other than life and title insurance companies (see article 7).

(5) Committees issuing certificates of deposit (see article 8).

(6) Banks (see article 9, rule 9-05).

(7) Brokers and dealers (see rule and form X-17A-5).

(b) Bank holding companies.--Financial statements and schedules filed for bank holding companies shall be prepared in accordance with this article except that rules 9-01 to 9-04, inclusive, of article 9 shall be applicable thereto.

Rule 5-02. Balance Sheets.

The balance sheets filed for persons to whom this article is applicable shall comply with the following provisions:

ASSETS AND OTHER DEBITS

Current Assets (see rule 4-14)

1. Cash and cash items.--State separately (a) cash on hand, demand deposits and time deposits; (b) call loans; and (c) funds subject to withdrawal restrictions.

2. Marketable securities.--Include only securities having a ready market. Securities of affiliates shall not be included here. State the basis of determining the amount at which carried. The aggregate cost, and aggregate amount on the basis of current market quotations, shall be stated parenthetically or otherwise.

3. Notes receivable (trade).

4. Accounts receivable (trade).

5. Reserves for doubtful notes and accounts receivable (trade).--Notes and accounts receivable known to be uncollectible shall be excluded from the assets as well as from the reserve account.

6. Inventories.--(a) State separately the major classes of inventory such as (1) finished goods; (2) work in process; (3) raw materials; and (4) supplies.

(b) The basis of determining the amounts shall be stated. If a basis such as "cost," "market," or "cost or market whichever is lower" is given, there shall also be given, to the extent practicable, a general indication of the method of determining the "cost" or "market": e.g., "average cost," "first-in, first-out," or "last-in, first-out."

7. Other current assets.--(a) State separately (1) total of current amounts, other than trade accounts subject to the usual trade terms, due from directors, officers, and principal holders of equity securities other than affiliates; (2) total of current amounts due from parents and subsidiaries; and (3) any other amounts in excess of ten per cent of total current assets, indicating any such amount due from affiliates other than parents and subsidiaries.

(b) Indebtedness of a parent or subsidiary, or any affiliate designated under (a)(3) shall not be considered as current unless the net current asset position of such person justifies such treatment. In the registrant's balance sheet show separately that indebtedness which in the related consolidated balance sheet is (1) eliminated and (2) not eliminated.

8. Total current assets.

Investments

9. Securities of affiliates.--State the basis of determining the amount. State separately the amounts which in the related consolidated balance sheet are (a) eliminated and (b) not eliminated.

10. Indebtedness of affiliates--not current.--State separately the indebtedness which in the related consolidated balance sheet is (a) eliminated and (b) not eliminated.

11. Other security investments.--State the basis of determining the amount. If available, state parenthetically or otherwise, the aggregate amount on the basis of market quotations.

12. Other investments.--State separately, by class of investments, any items in excess of ten per cent of the amount of all assets other than fixed and intangible.

Fixed Assets

13. Property, plant and equipment.

(a) State separately, if practicable, each major class, such as land, buildings, machinery and equipment, leaseholds, or functional grouping, and the basis of determining the amounts.

(b) Tangible and intangible utility plant of a public utility company shall be segregated so as to show separately the original cost, plant acquisition adjustments, and plant adjustments, as required by the system of accounts prescribed by the applicable regulatory authorities. This rule shall not be applicable in respect of companies which are not otherwise required to make such a classification or have not completed the necessary original cost studies. If such classification is not otherwise required or if such original cost studies have not been completed, an appropriate explanation of the circumstances shall be set forth in a note which shall include a specific statement as to the status of the original cost studies and, to the extent practicable, the results indicated thereby.

14. Reserves for depreciation, depletion, and amortization of property, plant and equipment (or reserves in lieu thereof).

Intangible Assets

15. Patents, trade marks, franchises, goodwill, and other intangible assets.--State the basis of determining the amounts.

16. Reserves for depreciation and amortization of intangible assets.

Deferred Charges

17. Prepaid expenses and other deferred items.--State separately any items material in amount and the method of amortization of such items. Prepayments of services to be received within one year may, however, be included under caption 7.

18. Organization expense.--State the method of amortization.

19. Debt discount and expense.--State the method of amortization.

20. Commissions and expense on capital shares.--State the method of amortization. These items may be shown as deductions from surplus.

Other Assets

21. Other assets. --State separately (a) total of amounts due from directors, officers, and principal holders of equity securities other than affiliates; (b) each pension or other special fund of a material amount; and (c) any other item in excess of ten per cent of the amount of all assets other than fixed and intangible.

LIABILITIES, CAPITAL SHARES, AND SURPLUS

Current Liabilities (see rule 3-15)

22. Notes payable.--State separately amounts payable (a) to banks; (b) to trade; and (c) to others.

23. Accounts payable (trade).

24. Accrued liabilities.--State separately (a) accrued payrolls; (b) tax liability; (c) interest; and (d) any other material items. If the total amount under this caption is not material it may be stated as one amount.

25. Other current liabilities.--State separately (a) dividends declared; (b) bonds, mortgages and similar debt; (c) total of current amounts due to parents and subsidiaries, showing separately in the registrant's balance sheet the amounts which in the related consolidated balance sheet are (1) eliminated and (2) not eliminated; (d) total of current amounts, other than items arising in the ordinary course of business, due directors, officers, and principal holders of equity securities other than affiliates; and (e) any other item in excess of ten per cent of total current liabilities, indicating any such liability due to affiliates other than parents and subsidiaries. Remaining items may be shown in one amount.

26. Total current liabilities.

Deferred Income

27. Deferred income.

Long-Term Debt

28. Bonds, mortgages and similar debt.--State separately each issue or type of obligation. Show here, or in a note referred to herein, such information as will indicate (a) the general character of each type of debt including the rate of interest; (b) the date of maturity, or if maturing serially, a brief indication of the serial maturities, such as "maturing serially from 1950 to 1960"; (c) the aggregate amount of maturities each year for the 5 years following the date of the balance sheet; (d) if the payment of principal or interest is contingent, an appropriate indication of such contingency; (e) a brief indication of priority; and (f) if convertible, a statement to that effect.

29. Indebtedness to affiliates--not current.--State separately indebtedness which in the related consolidated balance sheet is (a) eliminated and (b) not eliminated.

30. Other long-term debt.--Include under this caption all amounts of long-term debt not provided for under captions 28 and 29 above. State separately (a) total amounts due banks, (b) total amounts due directors, officers, and principal holders of equity securities other than affiliates and (c) other long-term debt, specifying any material item. Indicate whether secured. Show here, or in a footnote referred to herein, the information required under caption 28.

Other Liabilities

31. Other liabilities.--State separately any amount in excess of ten per cent of the total of liabilities other than long-term debt.

32. Commitments and contingent liabilities.--(See rules 3-20 and 3-22(g).)

Reserves, Not Shown Elsewhere

33. Reserves, not shown elsewhere.--State separately each major class and indicate clearly its purpose.

Capital Shares and Surplus (see rule 3-01(a).)

34. Capital shares.--State for each class of shares the title of issue, the number of shares authorized, and the number of shares outstanding and the capital share liability thereof. Show separately also the dollar amount, if any, of capital shares subscribed but unissued, and of subscriptions receivable thereon.

35. Surplus.--(a) Separate captions shall be shown for (1) paid-in surplus; (2) surplus arising from revaluation of assets; (3) other capital surplus; and (4) earned surplus (i) appropriated and (ii) unappropriated.

(b) If undistributed earnings of subsidiaries are included, state the amount thereof parenthetically, or otherwise. However, in a consolidated statement, the preceding sentence shall have reference only to the undistributed earnings of subsidiaries not consolidated in such statement.

(c) Earned surplus subsequent to the effective date of quasi-reorganization. (See rule 3-19(e).)

(d) An analysis of each surplus account setting forth the information prescribed in rule 11-02 shall be given for each period for which a profit and loss statement is filed, as a continuation of the related profit and loss statement, and shall be referred to here.

Rule 5-03. Profit and loss or income statements.

The profit and loss or income statements filed for persons to whom this article is applicable shall comply with the provisions of this rule.

(a) All items of profit and loss given recognition to in the accounts during the period covered by the profit and loss or income statements shall be included.

(b) Only items entering into the determination of net income or loss may be included.

(c) If income is derived from both gross sales (caption 1A below) and operating revenues (caption 1B below), the two classes may be combined in one amount if the lesser amount is not more than 10 per cent of the sum of the two items. If these items are combined, the cost of goods sold (caption 2A below) and operating expenses (caption 2B below) may be combined in one amount.

(d) Dividends from subsidiaries declared out of earned surplus of such subsidiaries created prior to acquisition by the parent may not be included.

(e) Dividends applicable to an issuer's own capital shares may not be included.

1A. Gross sales less discounts, returns, and allowances.--State separately, if practicable and if material in amount, (a) sales to parents and subsidiaries and (b) sales to others.

2A. Cost of goods sold.--

(a) State the amount of cost of goods sold as regularly computed under the system of accounting followed. Indicate the amount of opening and closing inventories used in the computation, and state the basis of determining such amounts.

(b) Merchandising organizations, both wholesale and retail, may include occupancy and buying costs under this caption. However, publicity costs shall be included under caption 4 below or shown separately.

1B. Operating revenues.--State separately, if practicable and if material in amount, revenues from (a) parents and subsidiaries and (b) others. A public utility company using a uniform system of accounts or a form for annual report prescribed by Federal or State authorities, or a similar system or report, shall follow the general segregation of revenues prescribed by such system or report.

2B. Operating expenses.--State separately, if practicable and material in amount, purchases from and services rendered by (a) parents and subsidiaries and (b) others. A public utility company using a uniform system of accounts or a form for annual report prescribed by Federal or State authorities, or a similar system or report, may follow the general segregation of operating expenses prescribed by such system or report.

3. Other operating expenses.--State separately any material amounts not included in caption 2A or 2B above.

3A. Gross profit from sales.

3B. Net operating revenues.

4. Selling, general, and administrative expenses.

5. Provision for doubtful accounts.

6. Other general expenses.--Include items not normally included in caption 4. above. State separately any material amount.

Other Income

7. Dividends.--State separately, if practicable and material, the amount of dividends from (a) securities of affiliates, (b) marketable securities, and (c) other security investments.

8. Interest on securities.--State separately, if practicable and material, the amount of interest from (a) securities of affiliates, (b) marketable securities, and (c) other security investments.

9. Profits on securities.--Profits shall be stated net of losses. No profits on the person's own securities, or those of its affiliates, shall be included. State here or in a note herein referred to the method followed in determining the cost of securities sold, e.g., "average cost," "first-in, first-out," or "identified certificate."

10. Miscellaneous other income.--State separately any material amounts, indicating clearly the nature of the transactions out of which the items arose.

Income Deductions

11. Interest and debt discount and expense.--State separately (a) interest on bonds, mortgages or similar debt; (b) amortization of debt discount and expense or premiums; and (c) other interest.

12. Losses on securities.--Losses shall be stated net of profits. No losses on the person's own securities, or those of its affiliates, shall be included. State here or in a note herein referred to the method followed in determining cost of securities sold, e.g., "average cost," "first-in, first-out" or "identified certificate."

13. Miscellaneous income deductions.--State separately any material amounts, indicating clearly the nature of the transactions out of which the items arose.

14. Net income or loss before provision for taxes on income.

15. Provision for taxes on income.--State separately (a) Federal income taxes; and (b) other income taxes.

16. Net income or loss.

(a) See caption 35(d) of rule 5-02.

ARTICLE 11. CONTENT OF STATEMENTS OF SURPLUS

Rule 11-01. Application of Article 11.

The article prescribes the content of the statements of surplus specified in rules 5-02 (caption 35), and 7-03 (caption 20).

Rule 11-02. Statement of surplus.--(See rule 5-03(a).)

The analysis shall be given as to each class of surplus set forth in the related balance sheet.

1. Balance at beginning of period.--(a) The balance at the beginning of the period of report may be as per the accounts.

(b) If the schedule is filed as part of an annual or other periodic report and the balances at the beginning of the period differ from the closing balances, as filed for the previous fiscal period, state the difference and explain.

2. Net income or loss from profit and loss statement.

3. Other additions to surplus.--State separately any material amounts, indicating clearly the nature of the transactions out of which the items arose.

4. Deductions from surplus other than dividends.--State separately any material amounts, indicating clearly the nature of the transactions out of which the items arose.

5. Dividends.--For each class of shares state the amount per share and in the aggregate.

(a) Cash.

(b) Other.--Specify.

6. Balance at close of period.--The balance at the close of the most recent period shall agree with the related balance sheet caption.

All interested persons are invited to submit data, views and comments on the above mentioned proposals in writing to the Securities and Exchange Commission, 425 Second Street, N. W., Washington 25, D. C., on or before August 21, 1950.

By the Commission.

(SEAL)

Orval L. DuBois,
Secretary.

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