than $5,000,000, excluding receipts from any other sources. No more than 7 handlers, and a majority of producers, of California raisins may be classified as small entities.

This proposal would increase the desirable carryout used to compute the yearly trade demand for raisins regulated under the order. Trade demand is computed based on a formula specified under § 989.54(a) of the order. It is also part of another formula used to determine volume regulation percentages for each crop year, if necessary. Desirable carryout, one factor in this formula, is the amount of tonnage from the prior crop year needed during the first part of the succeeding crop year to meet market needs, before new crop raisins are available for shipment. This rule would increase the desirable carryout specified in paragraph (a) of § 989.154 from 2½ months (August, September, and one-half of October) of prior year's shipments to a rolling average of 3 months (August, September, and October) of shipments for the past 5 years, dropping the high and low figures.

The proposed desirable carryout level would apply uniformly to all handlers in the industry, whether small or large, and there would be no known additional costs incurred by small handlers. As previously mentioned, increasing the desirable carryout would increase the trade demand and free tonnage percentage which would make more raisins available to handlers early in the season. A higher free tonnage percentage may also improve early season returns to producers (producers are paid an established field price for their free tonnage).

The Committee considered a number of alternatives to the 3-month rolling shipment average in the desirable carryout level. The Committee has an appointed subcommittee which periodically holds public meetings to discuss changes to the order and other issues. The subcommittee met on November 9, 1999, and discussed desirable carryout. All of the subcommittee members agreed with increasing the desirable carryout and considered a number of alternatives. Options considered include: Basing desirable carryout on a 5-year rolling average of actual carryout inventory; an average of 3 months of prior year's shipments; or a rolling average of 3 months of shipments over the past 5 years, dropping the high and low figures. The subcommittee ultimately recommended to the full Committee that desirable carryout be based on a 5-year rolling average of actual carryout inventory.

At the Committee meeting on November 10, 1999, these options were again reviewed. After much discussion, the majority of Committee members agreed that desirable carryout should be based on shipments, not actual carryout inventory. Most Committee members concurred that basing desirable carryout on actual carryout inventory could create problems if handlers carried out large inventories. In addition, most members believed that shipments are driven by market demand, and should thus continue to be the basis for desirable carryout. The Committee ultimately recommended that the desirable carryout be based on a rolling average of 3 months of shipments for the past 5 years, dropping the high and low figures.

This rule would not impose any additional reporting or recordkeeping requirements on either small or large raisin handlers. As with all Federal marketing order programs, reports and forms are periodically reviewed to reduce information requirements and duplication by industry and public sector agencies. Finally, the Department has not identified any relevant Federal rules that duplicate, overlap or conflict with this rule.

In addition, the Committee's subcommittee meeting on November 9, 1999, and the Committee meeting on November 10, 1999, where this action was deliberated, were public meetings widely publicized throughout the raisin industry. All interested persons were invited to attend the meetings and participate in the industry's deliberations. Finally, all interested persons are invited to submit information on the regulatory and informational impacts of this action on small businesses.

A small business guide on complying with fruit, vegetable, and specialty crop marketing agreements and orders may be viewed at the following web site: http://www.ams.usda.gov/fv/moab.html. Any questions about the compliance guide should be sent to Jay Guerber at the previously mentioned address in the **FOR FURTHER INFORMATION CONTACT** section.

A 60-day comment period is provided to allow interested persons to respond to this proposal. All written comments timely received will be considered before a final determination is made on this matter.

List of Subjects in 7 CFR Part 989

Grapes, Marketing agreements, Raisins, Reporting and recordkeeping requirements.

For the reasons set forth in the preamble, 7 CFR part 989 is proposed to be amended as follows:

PART 989—RAISINS PRODUCED FROM GRAPES GROWN IN CALIFORNIA

1. The authority citation for 7 CFR part 989 continues to read as follows:

Authority: 7 U.S.C. 601–674.

2. Section 989.154 is amended by revising paragraph (a) to read as follows:

§ 989.154 Marketing policy computations.

(a) *Desirable carryout levels.* The desirable carryout levels to be used in computing and announcing a crop year's marketing policy shall be equal to the total shipments of free tonnage during August, September, and October for each of the past 5 crop years, for each varietal type, converted to a natural condition basis, dropping the high and low figures, and dividing the remaining sum by three.

* * * * *

Dated: January 24, 2000.

Robert C. Keeney,

Deputy Administrator, Fruit and Vegetable Programs.

[FR Doc. 00–2039 Filed 1–28–00; 8:45 am]

BILLING CODE 3410–02–P

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 210, 229, and 249

[Release Nos. 33–7793; 34–42354; File No. S7–03–00]

RIN 3235–AH86

Supplementary Financial Information

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rule.

SUMMARY: The Commission is proposing to reposition certain schedule information currently required under Rule 12–09 of Regulation S–X within a new Item 302(c) of Regulation S–K to specify the disclosures to be provided by registrants concerning changes in valuation and loss accrual accounts. The Commission also is proposing to add another new Item 302(d) of Regulation S–K to elicit certain information concerning tangible and intangible long-lived assets and related accumulated depreciation, depletion, and amortization. A new Item 8C also would be added to the recently revised Form 20–F. The rule proposals are intended to provide investors with more transparent, better detailed disclosures

concerning changes in valuation and loss accrual accounts and in the underlying accounting assumptions and more detailed information to assess the effects of useful lives assigned to long-lived assets.

DATES: Comments should be received by April 17, 2000.

ADDRESSES: Please send three copies of your comment letter to Jonathan G. Katz, Secretary, U.S. Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549–0609. Interested persons also may submit comments electronically at the following e-mail address: *rule-comments@sec.gov.* All comment letters should refer to File No. S7–03–00; please include this file number in the subject line if you use e-mail. Anyone can inspect and copy the comment letters in our Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549–0609. We will post electronically submitted comment letters on the Commission's Internet Web Site (*www.sec.gov*).

FOR FURTHER INFORMATION CONTACT: John W. Albert, Associate Chief Accountant, or Richard L. Rodgers, Professional Accounting Fellow, Office of the Chief Accountant, at (202) 942–4400, or Louise M. Dorsey, Assistant Chief Accountant, Division of Corporation Finance, at (202) 942–2960, U.S. Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549–0609.

SUPPLEMENTARY INFORMATION: The Commission is proposing to reposition certain schedule information currently required under Rule 12–09 of Regulation S–X [1] within a new Item 302(c) of Regulation S–K [2] to specify the disclosures concerning valuation and loss accrual accounts to be provided by registrants. The Commission also is proposing to add another new Item 302(d) of Regulation S–K [3] to elicit additional information concerning tangible and intangible long-lived assets and related accumulated depreciation, depletion, and amortization. The proposed addition of Item 302(c) is intended to provide investors with more transparent, better detailed disclosures concerning changes in valuation and loss accrual accounts and in the underlying accounting assumptions. Similarly, the proposed addition of Item 302(d) is intended to provide investors with more detailed information concerning the financial reporting effects of useful lives assigned to long-lived assets. Because of the repositioning of valuation and loss accrual account disclosure within proposed Item 302(c), Schedule II of Rule 5–04 (Applicable to Commercial and Industrial Companies) [4] and Schedule V of Rule 7–03 (Applicable to Insurance Companies) [5] would be eliminated. Also due to the proposed repositioning, a new Item 8C of Form 20–F [6] would be added to require presentation of supplementary financial information.

[1] 17 CFR 210.12–09.

[2] 17 CFR 229.302(c).

[3] 17 CFR 229.302(d).

I. Background

Many participants in and observers of the financial reporting process, including the Commission, have noted an apparent increase in abusive ''earnings management'' by public companies.[7] While it is recognized that management may properly determine the timing of earnings recognition from certain arms-length transactions (such as the sale of an appreciated asset) or deferral of expense recognition (by delaying expenditures for advertising or maintenance), examples of abusive ''earnings management'' have been occurring with increased frequency. Some observers contend that the apparent increased incidence of ''earnings management'' is in response to an increased pressure to meet earnings estimates in today's markets. With current price-earnings ratios at an all-time high, failure to meet analysts' expectations by even small amounts can have a significant negative effect on market capitalization, which in turn can affect management's ability to retain key employees and grow and operate the business. In response to such factors, the Commission has initiated a series of coordinated actions to address issues related to earnings management. A key element of this action plan addresses the problems caused by a lack of transparency in some aspects of financial reporting.

Problems attributable to lack a transparency noted by observers of the financial reporting process include, but are not limited to:

- Failure to comply with the disclosure requirements for changes in accrued liabilities for certain costs to exit an activity during periods subsequent to the initial charge;
- Grouping dissimilar items into an aggregated classification;
- Recurring ''nonrecurring'' charges;
- Inadequate disclosure of changes in estimates and in underlying assumptions during the period of change;
- Inconsistent application of SEC required disclosures of valuation and loss accruals, and
- Insufficient information about expected useful lives, changes in useful lives, and salvage values of long-lived assets.

[4] 17 CFR 210.5–04.

[5] 17 CFR 210.7–03.

[6] 17 CFR 249.220f. Form 20–F was revised significantly as explained in Release No. 33–7745 (September 28, 1999). These amendments will be effective as of September 30, 2000. The proposed amendments would be incorporated into the revised Form 20–F, Item 8C.

[7] *See* Remarks by SEC Chairman Arthur Levitt, ''The Numbers Game,'' to the NYU Center for Law and Business, New York, NY, September 28, 1998.

II. Proposed Rule Changes

The proposed amendments would create a new Item 302(c) of Regulation S–K to clarify and expand the supplemental disclosure requirements concerning activity involving valuation and loss accrual accounts so as to improve the transparency of financial reporting by registrants. The proposed requirements are patterned after Rule 12–09 of Regulation S–X which currently requires schedule disclosure of activity in an entity's valuation and qualifying accounts and reserves. The schedule (Schedule II) is structured to show beginning and ending account balances as well as activity, including any adjustments, during the year for individually significant valuation and qualifying accounts and reserves. However, compliance with the schedule requirements appears to be mixed, possibly due to a lack of general agreement as to what constitutes a valuation or reserve account. Also, diversity in practice has resulted from varying approaches to combining individually insignificant account balances.

The Financial Accounting Standards Board's Concepts Statements define a valuation account as a separate item that reduces or increases the carrying amount of an asset or liability. Examples cited include an estimate of uncollectible amounts that reduces receivables to the amount expected to be collected, or a premium on a bond receivable that increases the receivable to its amortized cost or present value. Valuation accounts are part of the asset or liability to which they relate and are neither assets nor liabilities in their own right.[8]

In addition to detailed disclosures concerning valuation and qualifying accounts, Schedule II also currently requires disclosure of activity concerning balances in ''reserve'' accounts. Because the term ''reserve'' is

[8] Paragraph 34 of Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements.*

not defined in the authoritative accounting literature, its references within the Commission's rules may have confused certain preparers and contributed to diverse reporting practices. As a result of this confusion, reporting by registrants about activity involving these accounts has been mixed, with certain registrants providing more complete disclosures than others in similar circumstances. To avoid future confusion, the Commission proposes to revise the supplemental disclosure requirements to refer to the term ''loss accrual'' thereby appropriately focusing on accruals for loss contingencies.

To reduce the existing diversity in practice and provide a more ''level playing field,'' proposed Item 302(c) sets forth a list of commonly reported loss accrual and/or valuation accounts that the Commission would expect registrants to present within that Item. The list, which was extracted from the SEC reporting guidelines of certain major accounting firms, is suggestive rather than all-inclusive and includes the following accounts:

- Allowance for doubtful accounts and notes receivable
- Allowance for sales returns, discounts, and contractual allowances
- Unamortized premium or discount
- Excess of estimated costs over revenues on contracts (loss contracts)
- Inventory valuation allowance [9]
- Valuation allowance for deferred tax assets
- Liabilities for exit and employee termination costs, including costs related to a restructuring (assuming that the criteria set forth in EITF Issue 94–3 have been met) [10] or to an acquired business (assuming that the criteria under EITF Issue 95–3 have been met) [11]
- Liabilities for costs of discontinued operations
- Liabilities for environmental remediation costs
- Contingent income and franchise tax liabilities recorded pursuant to FASB Statement 5
- Product warranty liabilities
- Probable losses from pending litigation

Consistent with existing Rule 12–09 of Regulation S–X, the information called for under proposed Item 302(c) must be provided for each period for which an audited income statement is required. Consistent with the Item's income-statement focus, registrants must focus on income statement measures, such as effects on the individual line item, operating income (loss), net earnings (loss), and earnings trends, in making assessments of materiality of particular valuation and loss accrual accounts for purposes of presenting the relevant data.[12] As pointed out by observers of ''earnings management'' abuses, changes in valuation and loss accrual accounts often have a significant impact on income statement results and earnings trends.

Certain detailed disclosures about activity in a specific valuation and loss accrual account are required under existing generally accepted accounting principles (GAAP). For example, disclosure of the net change in the valuation allowance recognized for deferred tax assets is required by Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes.* To avoid redundancy, detailed information about activity in valuation and loss accrual accounts may be omitted if the same information is provided in the notes to financial statements.

The proposed rules would reposition the required disclosures about activity in a registrant's valuation and loss accrual accounts currently furnished in a schedule to a separate item within the section of Regulation S–K captioned, *Supplementary Financial Information.* The proposed repositioning of disclosures about valuation and loss accrual account activity is intended to encourage registrants to focus on the need to provide a detailed narrative discussion about the assumptions underlying the recognition of a valuation or loss accrual account along with the nature of any changes in those assumptions requiring adjustment to the account balance. Experience has shown that the more free-writing style permitted to comply with Regulation S-K may be more conducive to detailed narrative explanation that better communicates the financial reporting effects of changes in facts and assumptions.

Although the proposed repositioning of the valuation and loss accrual account activity disclosures would remove these disclosures from explicit coverage in the auditors' report, a registrant's auditors would continue to have certain professional responsibilities resulting from association with these disclosures. Statement on Auditing Standards No. (SAS) 8, ''Other Information in Documents Containing Audited Financial Statements,'' requires the auditor to read other information, such as the supplementary financial information about valuation and loan loss account activity, in a document containing audited financial statements and consider whether such information is materially inconsistent with information appearing in the financial statements. In the event that the auditor discovers a material inconsistency, compliance with SAS 8 would require that the auditor determine whether the financial statements, the auditor's report, or both should be revised.

The Commission also is proposing to add a new Item 302(d) to provide information concerning property, plant, and equipment and related accumulated depreciation, depletion, and amortization. The proposed disclosure would be similar to the schedule information previously required under Rules 12–06 and 12–07 of Regulation S–X. Prior to 1995, registrants were required to provide detailed schedules of property, plant, and equipment and related accumulated depreciation, depletion, and amortization in cases where the property, plant, and equipment account exceeded 25 percent of total assets. Activity disclosed through the schedules included additions, retirements, and other changes in each major fixed asset account. These schedule requirements were rescinded through the Commission's issuance of Financial Reporting Release 44.[13] In announcing rescission of the schedule requirements, the amending release cited the views of the majority of commentators that the schedules generally were redundant to information already required in the financial statements.

[9] Use of an inventory valuation allowance to reflect a writedown of inventory to the lower of cost or market at the close of a fiscal period establishes a new cost basis that cannot be marked up based on subsequent changes in market. See Accounting Research Bulletin No. 43, Chapter 4, Statement 5.

[10] The FASB's Emerging Issues Task Force reached a consensus at its January 19, 1995 meeting on the criteria that must be met for an employer to recognize a liability for the costs of employee termination benefits provided to involuntarily terminated employees and other costs to exit an activity. EITF Issue 94–3, ''Liability Recognition For Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring).''

[11] Similar to the resolution concerning restructuring-related costs, the EITF reached a consensus at its meetings of July 20–21, 1995 on the conditions under which the costs of a plan to (1) exit an activity of an acquired company, (2) involuntarily terminate employees of an acquired company, or (3) relocate employees of an acquired company should be recognized as liabilities. EITF Issue 95–3, ''Recognition of Liabilities in Connection with a Purchase Business Combination.''

[12] Staff Accounting Bulletin 99, ''Materiality'' (August 12, 1999), provides guidelines for assessing materiality thresholds. It emphasizes that the exclusive use of numerical or percentage tests to make materiality determinations is not acceptable. 64 FR 45150 (August 19, 1999).

[13] Release 33–7118, *Financial Statements of Significant Foreign Equity Investees and Acquired Foreign Businesses of Domestic Issuers and Financial Schedules* (December 13, 1994) [59 FR 65632].

Since the issuance of Financial Reporting Release 44, financial analysts have advised the Commission staff that the rescission of the schedule requirements has resulted in a loss of useful information about depreciation methods, useful lives, and salvage values of long-lived assets. Analysts contend that this loss of information has hindered their ability to evaluate management's capital allocation decisions and to estimate future depreciation charges.[14]

In eliminating these schedule requirements, Financial Reporting Release 44 noted the existence of certain overlapping requirements under GAAP, principally Accounting Principles Board Opinion No. 12, calling for certain disclosures about major components of fixed assets and related accumulated depreciation and amortization account balances.[15] However, since the requirements imposed under GAAP may be satisfied by general descriptions rather than the specific data required under the rescinded schedules, the net effect has been the loss of some key analytical data. For example, APB Opinion 12 requires a general description of the method or the methods used in computing depreciation of major classes of fixed assets. APB Opinion 12 also permits accumulated depreciation balances to be shown in the aggregate. No disclosure is required of estimated salvage values.

Financial statement users have expressed frustration due to an inability to recreate the detailed information about activity in specific fixed asset accounts that formerly was provided under Rules 12–06 and 12–07 of Regulation S–X. Experience has shown that compliance with the more general requirements imposed under APB Opinion 12 may not provide all detailed disclosures pertinent to an analysis of changes in fixed assets, and may have contributed to some lack of transparency in financial statements of public companies. Accordingly, the Commission is proposing to reinstate the informational requirements formerly called for under Rules 12–06 and 12–07 and to add disclosures about salvage values. The proposed disclosures would be required to support the account balances of any long-lived asset separately captioned on the balance sheet.

The Commission staff has noted a similar lack of specificity in the requirements under GAAP for disclosures concerning intangible assets. APB Opinion No. 17, *Intangible Assets,* requires disclosure of the method and period of amortization of an entity's intangible assets.[16] However, where the aggregate balance in an intangible asset account has many components (such as goodwill resulting from a number of individual purchase business combinations), the required disclosures may be provided in terms of ranges of amortization periods. Without additional data, users of financial information are unable to evaluate the impact on reported earnings of estimated useful lives assigned to intangible assets resulting from specific acquisitions.[17]

Therefore, to provide additional analytical data necessary to evaluate the effects of varying amortization periods for intangible assets, the Commission also is proposing to include activity involving intangible assets in new Item 302(d). Furthermore, in order to provide more useful analytical data, the proposed Item would require disclosure about the registrant's goodwill account. In circumstances where the account balance results from different business acquisitions with varying useful lives, the disclosure would need to show the amount of goodwill in the aggregate as well as the account balance of each component assigned a different estimated useful life. However, consistent with the proposed treatment of valuation and loss accrual account activity, detailed information about activity in a particular property, plant, equipment, and intangible asset and related accumulated depreciation, depletion, and amortization account may be omitted if the same information is provided to investors within the notes to financial statements.

In summary, the Commission is proposing amendments to Regulation S–K to specify disclosures of valuation and loss accrual accounts and long-lived assets and related accumulated depreciation, depletion, and amortization in response to problems attributable to a lack of transparency in financial reporting. The proposed disclosures are intended to provide sufficient analytical information so that changes in the amounts and activity in these accounts are transparent to investors.

The Commission is proposing to amend Form 20–F to include the substance of proposed Items 302(c) and (d). Foreign private issuers, therefore, would be required to provide these disclosures.

III. General Request for Comment

The Commission is proposing these amendments to clarify and expand certain disclosures to be provided as supplementary financial information. If you would like to submit written comments on the proposals, to suggest additional changes, or to submit comments on other matters that might have an impact on the proposals, we encourage you to do so. Besides the specific questions being asked in this release, we also solicit comments on the usefulness of the proposals to security holders, issuers, and the marketplace at large. We would like comments from the point of view of both bidders and targets, as well as security holders and market professionals involved in the mergers and acquisitions area. We also solicit comments specifically addressing whether these proposed changes adequately provide information that is useful to the analysis of financial statements. We also seek comments about whether other amendments are appropriate for that purpose.

The proposed amendments are based on the assumption that the information to be provided is readily available from each registrant's books and records. The Commission understands that some of the information called for under the proposed rules must be collected for the preparation and audit of a registrant's balance sheet and statement of cash flows. Consequently, we are interested in commentators' views as to whether they agree that the information to be provided under the proposed disclosure requirements already is collected as part of the financial statements preparation and related independent audit process.

The staff also seeks specific comments on the following elements of this rule proposal:

1. Are there other specific loss accrual or valuation accounts that should be added to the list of accounts identified within proposed Item 302(c)?

2. Should specific percentage tests be used to trigger specific account disclosures within the proposed rules? For example, should disclosure of loss accrual account activity be required only when the balance sheet item and change during the period exceeds a certain pre-established numerical

[14] Letter to Lynn Turner, Chief Accountant, Securities and Exchange Commission from the Financial Accounting Policy Committee of the Association for Investment Management and Research dated October 19, 1998.

[15] Accounting Principles Board Opinion No. 12, *Omnibus Opinion—1967* addresses, among other topics, Disclosure of Depreciable Assets and Depreciation (see paragraphs 4 and 5).

[16] See paragraph 30 of APB Opinion No. 17.

[17] For example, disclosure may be provided that an entity's amortization of goodwill attributable to various business acquisitions ranges from five to forty years. Analysis of the impact of the selection of specific useful lives would be improved if details were provided as to which specific goodwill allocations fell on which end of the range.

threshold (for example, 5% of total assets or 3% of pretax income)? If so, what is an appropriate threshold?

3. Should the placement of the proposed data be moved within MD&A or to some other section of the filing to enhance the prominence of the disclosures?

4. Should presentation of the proposed data be limited to the Form 10–K?

5. Should the disclosure requirements be restricted to those registrants that exceed a certain size or meet some other threshold? If so, what would be the appropriate threshold?

6. Are there circumstances where registrants may appropriately exclude disclosure about loss accruals related to litigation because of concerns about confidentiality while still conforming with GAAP? If so, please describe such circumstances in detail.

7. Should the disclosures concerning valuation and loss accrual account activity be required when interim financial statements are presented?

8. Should the disclosures concerning changes in property, plant, equipment, and intangible assets and related accumulated depreciation, depletion, and amortization be required when interim financial statements are presented?

Please send three copies of your comment letter to Jonathan G. Katz, Secretary, US Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549. Interested persons also may submit comments electronically at the following e-mail address: rule-comments@sec.gov. All comment letters should refer to File No. S7–03–00; please include this file number in the subject line if you use e-mail. Anyone can inspect and copy the comment letters in our public reference room at 450 Fifth Street, NW, Washington, DC 20549. We will post electronically submitted comment letters on our Internet Web Site (www.sec.gov).

IV. Paperwork Reduction Act

The proposals contain ''collection of information'' requirements within the meaning of the Paperwork Reduction Act of 1995 (PRA). Our staff has submitted the proposals for review to the Office of Management and Budget (OMB) in accordance with the PRA. The title of the affected information collection is ''Supplementary Financial Information.'' An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number. The proposals would revise a current collection of information, Regulation S–K, which currently is assigned OMB Control Number 3235–0071.

The proposals are designed to elicit improved disclosures about (1) Registrants' property, plant, equipment and intangible assets, (2) Allowances for accumulated depreciation, depletion, and amortization of property, plant, equipment, and intangible assets, and (3) Valuation and loss accrual accounts. The purpose of these disclosures is to improve investors' understanding of how these items impact the numbers in the financial statements and to reduce the potential for abuse from establishing inappropriate amounts of valuation and loss accrual accounts and similar items. The information needed for preparation of these disclosures should be readily available from the registrant's books and records. Also, as discussed elsewhere in this release, small business issuers would not be impacted by the proposals.

The likely respondents to the collection of information request include those currently filing Forms 10–K, 10, 20–F, and F–1. Registrants not eligible for incorporation by reference filing under Forms S–4 and F–4 are required to present schedule information. The information typically would be collected once a year in the Form 10–K and then incorporated by reference into other forms as appropriate. Based on a sample of Forms 10–K filed by registrants currently presenting valuation and qualifying account and reserve disclosures under Schedule II, it is estimated that approximately 2,900 respondents would be required to include the disclosures proposed under Item 302(c) in their Form 10–K filings.

The staff has received input from a diversified, multi-divisional registrant estimating that the average burden hours to begin collecting the appropriate records and report the proposed disclosures about valuation and loss accrual account activity each year would be 247 hours per registrant but that the annual, recurring burden would be only 17 hours per registrant. The cost estimates were based on the company's previous experience in complying with the requirements of Schedule II. Extending the cost burden estimates to the approximately 2,900 registrants currently estimated to be filing valuation and qualifying account schedule data after initial start up burdens results in an estimated total recurring, annual burden of 49,300 hours.

The same diversified, multi-divisional registrant also provided input concerning the estimated burden hours involved in beginning to comply with proposed Item 302(d) concerning changes in long-lived assets and related accumulated depreciation, depletion, and amortization. It is estimated that 133 burden hours per registrant would be required initially to comply with the proposed requirements under Item 302(d) but that the annual recurring burden would be approximately only 35 hours per registrant. Assuming that approximately the same number of SEC registrants required to furnish valuation and loss accrual account activity also would be impacted by the proposed long-lived asset disclosures (approximately 2,900), the total recurring annual burden would approximate 101,500 hours.

Preparing and disclosing the Supplementary Financial Information will be mandatory to the extent a registrant must file with the Commission audited annual financial statements in accordance with Regulation S–X, 17 CFR 210, and the registrant has had significant activity involving the information required by the proposed new items in Regulation S–K. The supplementary data will be public information.

Pursuant to 44 U.S.C. § 3506(c)(2)(B), the Commission solicits comments on (i) Whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility; (ii) The accuracy of the agency's estimate of the burden of the proposed collection of information; (iii) Whether there are ways to enhance the quality, utility, and clarity of the information to be collected; and (iv) Whether there are ways to minimize the burden of collection of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

Persons wishing to submit comments on the collection of information requirements should direct them to the Office of Management and Budget, Attention: Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Washington, DC 20503, and should also send a copy of their comments to Jonathan G. Katz, Secretary, US Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549–0609, with reference to File No. S7–03–00. The Office of Management and Budget is required to make a decision concerning the collection of information between 30 and 60 days after publication. Requests for materials submitted to OMB by the

Commission with regard to this collection of information should be in writing, refer to File No. S7–03–00 and be submitted to the Securities and Exchange Commission, Records Management, Office of Filings and Information Services.

V. Cost-Benefit Analysis

The new proposals are intended to benefit investors by providing a clearer picture of how registrants may be using valuation and loss accrual accounts and estimates of the useful lives and salvage values assigned to assets to impact the amounts reported in their financial statements. Analysts have suggested, and we agree, that shedding more sunlight on these areas will assist investors in analyzing these items and discourage inappropriate ''earnings management,'' thus enhancing the protection of investors. We are unable to quantify this benefit.

The new disclosures will require registrants to prepare two new disclosure items, one of which calls for information that essentially is being provided in an existing schedule. Registrants will face increased costs associated with the preparation and printing of these disclosures; however, because the information should be readily available from each registrant's books and records, we do not believe these costs would be significant. In addition, small business issuers under Regulation S–B and small issuers qualifying for the exemption under Regulation A are not required currently to provide this information and would not be impacted by the proposals. For the purposes of the PRA, we estimate that, after initial start up costs, the annual average hourly burden to comply with proposed Items 302(c) and (d) would be 52 hours. Assuming costs of $125 per hour and 2,900 registrants, we estimate the average annual paperwork burden as $18,850,000. We request comment on the reasonableness of these assumptions. We solicit comment on these estimates.

The Commission requests data to quantify the costs and the value of the benefits identified. The Commission also solicits estimates and views regarding the costs and benefits for particular types of market participants, as well as any other costs or benefits that may result from the adoption of the proposed rules. In particular, we request data and analysis on whether the new proposal would result in a major increase in costs or prices for consumers or individual industries, or significant adverse effects on competition, investment, productivity, innovation, or small business. Specifically:

1. What are the expected increases in costs for:

a. Internal financial reporting costs for the necessary data accumulation and preparation?

b. Printing costs?

c. Other costs? (please explain)

2. What would be the expected impact on costs in response to 1. above if disclosure of valuation and loss accrual account activity was required on a quarterly basis?

3. What are the expected cost savings from no longer requiring schedule disclosure of valuation and loss accrual account activity subject to audit?

The Commission also is interested in the views of users of financial information as to any other costs or benefits that would result from adoption of the proposed disclosures.

Commentators are requested to provide empirical data to support their views.

VI. Consideration of impact on the Economy, Burden on Efficiency, Competition and Capital Formation

For purposes of the Small Business Regulatory Enforcement Fairness Act of 1996 (SBREFA),[18] the Commission also is requesting information regarding the potential impact of the proposed rule on an annual basis. Commentators should provide empirical data to support their views.

Section 23(a)(2) of the Securities Exchange Act of 1934 requires the Commission, in adopting rules under the Act, to consider the anti-competitive effects of any rule it adopts.[19] We request comment on whether the proposed revision, if adopted, would have an adverse effect on competition or would impose a burden on competition that is neither necessary nor appropriate in furthering the purposes of the Securities Act of 1933 and the Securities Exchange Act of 1934.

Section 2(b) of the Securities Act of 1933 [20] and Section 3(f) of the Securities Exchange Act of 1934 [21] require the Commission, when engaged in rulemaking that requires a public interest finding, to consider, in addition to the protection of investors, whether the action will promote efficiency, competition and capital formation. Therefore, we solicit comment on what effect the proposed changes, if adopted, may have on efficiency, competition and capital formation.

VII. Summary of Regulatory Flexibility Act Certification

Pursuant to section 605(b) of the Regulatory Flexibility Act,[22] Arthur Levitt, Chairman of the Commission, certified that the amendments proposed in this release would not, if adopted, have significant impact on a substantial number of small entities. The reason for this certification is that the supplementary information is not filed by small business issuers. In addition, the proposed amendments would require registrants to present supplementary data that should be easily retrievable from their books and records. We include the Certification in this release as Attachment A and encourage written comments relating to it. Commentators should describe the nature of any impact on small entities and provide empirical data to support the extent of the impact.

VIII. Codification Update

The Commission proposes to amend the ''Codification of Financial Reporting Policies'' announced in the Financial Reporting Release No. 1 (April 15, 1982) [47 FR 21028] to:

1. Delete Section 209, Property, Plant, and Equipment Disclosure Requirements.

2. Add new Section 217, Valuation and Loss Accrual Accounts to include the fourth and fifth paragraphs under Section II of this release captioned, Proposed Rule Changes.

The Codification is a separate publication of the Commission. It will not be published in the Code of Federal Regulations.

IX. Statutory Basis

The Commission proposes the rule changes explained in this release pursuant to Sections 6,7,8,10 and 19(a) of the Securities Act and Sections 3,10A,12,13,14,15(d) and 23(a) of the Exchange Act.

List of Subjects in 17 CFR Parts 210, 229, and 249

Accounting, Reporting and recordkeeping requirements, Securities.

Text of Proposals

Accordingly, the Commission proposes to amend Title 17, Chapter II of the Code of Federal Regulations as follows:

PART 210—FORM AND CONTENT OF AND REQUIREMENTS FOR FINANCIAL STATEMENTS, SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, PUBLIC UTILITY HOLDING COMPANY ACT OF 1935, INVESTMENT COMPANY ACT OF 1940, AND ENERGY POLICY AND CONSERVATION ACT OF 1975

1. The authority citation for part 210 continues to read as follows:

[18] Pub. L. No. 104–121, 110 Stat. 857 (1996) (codification in various sections of 5 U.S.C. and 15 U.S.C. and a note to 5 U.S.C. 601).

[19] 15 U.S.C. 78 w(a)(2).

[20] 15 U.S.C. 77(b).

[21] 15 U.S.C. 78c(f).

[22] 5 U.S.C. 605(b).

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77z–2, 77aa(25), 77aa(26), 78j–1, 78*l*, 78m, 78n, 78o(d), 78u–5, 78w(a), 78*ll*(d), 79e(b), 79j(a), 79n, 79t(a), 80a–8, 80a–20, 80a–29, 80a–30, 80a–37(a), unless otherwise noted.

2. By amending § 210.5–04 as follows:

a. By revising paragraph (a)(1);

b. Removing paragraph (a)(2);

c. Redesignating paragraph (a)(3) as (a)(2); and

d. Removing and reserving Schedule II to read as follows:

§ 210.5–04 What schedules are to be filed.

(a) * * *

(l) The schedule specified in this section as Schedule III shall be filed as of the date of the most recent audited balance sheet for each person or group.

* * * * *

3. By amending § 210.7–05 as follows:

a. By revising paragraphs (a)(2) and (a)(3); and

b. Removing and reserving Schedule V to read as follows:

§ 210.7–05 What schedules are to be filed.

(a) * * *

(1) * * *

(2) Schedule IV specified in this section shall be filed for each period for which an audited income statement is required to be filed.

(3) Schedules II and III in this section shall be filed as of the date and for the periods specified in the schedule.

* * * * *

PART 229—STANDARD INSTRUCTIONS FOR FILING FORMS UNDER SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934 AND ENERGY POLICY AND CONSERVATION ACT OF 1975—REGULATION S–K

The authority citation for part 229 continues to read in part as follows:

Authority: 15 U.S.C. 77e, 77f, 77g, 77h, 77j, 77k, 77s, 77z–2, 77aa(25), 77aa(26), 77ddd, 77eee, 77ggg, 77hhh, 77iii, 77jjj, 77nnn, 77sss, 78c, 78i, 78j, 78*l*, 78m, 78n, 78o, 78u–5, 78w, 78*ll*(d), 79e, 79n, 79t, 80a–8, 80a–29, 80a–30, 80a–37, 80b–11, unless otherwise noted.

* * * * *

5. By amending § 229.302 by adding paragraphs(c) and (d) to read as follows:

§ 229.302 (Item 302) Supplementary financial information.

* * * * *

(c) Information about changes in valuation and loss accrual accounts. Registrants shall provide the following information concerning changes in each major class of valuation or loss accrual account (estimated liabilities) for each period for which an audited income statement is required. Major classes of valuation or loss accrual accounts shall include, but not necessarily be limited to, allowance for doubtful accounts or notes receivables; allowance for sales returns, discounts and contractual allowances; unamortized discount or premium; excess of estimated costs over revenues on contracts (loss contracts); inventory valuation allowance; valuation allowance for deferred tax assets; liabilities for exit and employee termination costs related to a restructuring or a business combination; liabilities for costs of discontinued operations; liabilities for environmental costs; contingent income and franchise tax liabilities recorded pursuant to FASB Statement 5; product warranty liabilities; and probable losses from pending litigation.

Balance—beginning of period	Additions charged to expense	Deductions/ other additions	Balance—end of period
(1)(3)(5)	(4)	(2)(4)	(6)

Instructions to paragraph (c). 1. List separately each major class of valuation and loss accrual account by descriptive title. All loss contingencies recorded pursuant to the requirements of FASB Statement 5 should be reported.

2. Describe the nature of any deductions or additions other than those charged to expense.

3. To the extent that a major class of valuation or loss accrual account is composed of varying elements (*e.g.*, the various elements comprising a registrant's liability for exit and employee termination costs), each significant element should be disclosed.

4. Describe the nature of any changes in the assumptions used in estimating the amount of a valuation or loss accrual account that has a material effect on the change in the valuation or loss accrual account.

5. Registrants are reminded that if no accrual is made for a loss contingency because all of the conditions specified in FASB Statement 5 have not been met, or if an exposure to loss exists in excess of the recorded amounts, paragraph 10 of that standard requires that disclosure be provided in the financial statements when there is at least a reasonable possibility that a loss or additional loss has been incurred.

6. Use of an inventory valuation allowance to reflect a writedown of inventory to the lower of cost or market at the close of a fiscal period creates a new cost basis that cannot be marked up based on subsequent changes in market.

(d) *Information about changes in long-lived asset and corresponding accumulated depreciation, depletion, and amortization accounts.* Registrants shall provide the following information concerning changes in each major long-lived asset and corresponding accumulated depreciation, depletion, and amortization (allowance) account. Major long-lived asset classifications are those assets for which separate presentation is made on the balance sheet and include land, buildings, equipment, leaseholds, brand names, non-compete agreements, customer lists, goodwill, and other major tangible or intangible long-lived assets. Information also should be provided as to each allowance account that corresponds with the major asset classification.

Balance—beginning of period	Additions	Deductions	Balance—end of period
(1)(2)	(3)(4)(6)	(5)(6)	

Instructions to paragraph (d). 1. List separately balances in major long-lived asset accounts and corresponding accumulated depreciation, depletion, and amortization accounts. Information concerning changes in each asset and allowance account shall be presented for each period in which an audited income statement is required.

2. Disclose the method of depreciation, depletion, or amortization,

estimated useful lives, and salvage values for each long-lived asset account. Separately present goodwill and corresponding accumulated amortization account balances for each significantly different useful life group. Disclosure of estimated useful lives may be provided in a range or weighted average if there is significant variance within the asset group.

3. Provide an explanation as to the nature of any additions to long-lived asset accounts that are other than at cost.

4. Provide an explanation if additions to accumulated depreciation, depletion, and amortization accounts are charged against accounts other than expenses in the income statement.

5. Provide an explanation if the deduction from the asset and related allowance accounts related to assets sold or retired during the period is at an amount other than cost.

6. Provide an explanation for any significant and unusual asset additions, abandonments, retirements, or other adjustments (*e.g.*, foreign currency translation) or any significant and unusual changes in the general character and location of principal plants and units that occurred during the period

PART 249—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1934

6. The authority citation for Part 249 continues to read in part as follows:

Authority: 15 U.S.C. 78a, *et seq.*, unless otherwise noted;

* * * * *

7. By amending Form 20–F (referenced in § 249.220f) as effective September 30, 2000, by adding Item 8C in Part I and removing the reference ''§ 210.12–09,'' in paragraph (a) of Item 17, Part IV to read as follows:

[**Note:** The text of Form 20–F does not, and the amendment will not, appear in the Code of Federal Regulations.]

Form 20–F

Registration Statement Pursuant to Section 12 (b) or (g) of the Securities Exchange Act of 1934

or

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

* * * * *

Part I

Item 8C. Supplementary Financial Information

(a) *Information about changes in valuation and loss accrual accounts.* Registrants shall provide the following information concerning changes in each major class of valuation or loss accrual account (estimated liabilities) for each period for which an audited income statement is required. Major classes of valuation or loss accrual accounts shall include, but not necessarily be limited to, allowance for doubtful accounts or notes receivables; allowance for sales returns, discounts and contractual allowances; unamortized discount or premium; excess of estimated costs over revenues on contracts (loss contracts); inventory valuation allowance; valuation allowance for deferred tax assets; liabilities for exit and employee termination costs related to a restructuring or a business combination; liabilities for costs of discontinued operations; liabilities for environmental costs; contingent income and franchise tax liabilities recorded pursuant to FASB Statement 5; product warranty liabilities; and probable losses from pending litigation.

Balance—beginning of period	Additions charged to expense	Deductions/ other additions	Balance—end of period
(1)(3)	(4)	(2)(4)	

Instructions to Paragraph (a). 1. List separately each major class of valuation and loss accrual account by descriptive title. All recorded loss contingencies should be reported.

2. Describe the nature of any deductions or additions other than those charged to expense.

3. To the extent that a major class of valuation or loss accrual account is composed of varying elements (*e.g.*, the various elements comprising a registrant's liability for exit and employee termination costs), each significant element should be disclosed.

4. Describe the nature of any changes in the assumptions used in estimating the amount of a valuation or loss accrual account that has a material effect on the change in the valuation or loss accrual account.

(b) *Information about changes in long-lived asset and corresponding accumulated depreciation, depletion, and amortization accounts.* Registrants shall provide the following information concerning changes in each major long-lived asset and corresponding accumulated depreciation, depletion, and amortization (allowance) account. Major long-lived asset classifications are those assets for which separate presentation is made on the balance sheet and include land, buildings, equipment, leaseholds, brand names, non-compete agreements, customer lists, goodwill, and other major tangible or intangible long-lived assets. Information also should be provided as to each allowance account that corresponds with the major asset classification.

Balance—beginning of period	Additions	Deductions	Balance—end of period
(1)(2)	(3)(4)(6)	(5)(6)	

Instructions to paragraph (b). 1. List separately balances in major long-lived asset accounts and corresponding accumulated depreciation, depletion, and amortization accounts. Information concerning changes in each asset or allowance account shall be presented for each period in which an audited income statement is required.

2. Disclose the method of depreciation, depletion, or amortization, estimated useful lives, and salvage values for each long-lived asset account. Disclosure of estimated useful lives may be provided in a range or weighted average if there is significant variance within the asset group. Separately present goodwill and corresponding accumulated amortization account balances for each significantly different useful life group.

3. Provide an explanation as to the nature of any additions to long-lived

asset accounts that are other than at cost.

4. Provide an explanation if additions to accumulated depreciation, depletion, and amortization accounts are charged against accounts other than expenses in the income statement.

5. Provided an explanation if the deduction from the asset and related allowance accounts related to assets sold or retired during the period is at an amount other than cost.

6. Provide an explanation for any significant and unusual asset additions, abandonments, retirements, or other adjustments (*e.g.*, foreign currency translation) or any significant and unusual changes in the general character and location of principal plants and units that occurred during the period.

* * * * *

Dated: January 21, 2000.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

Attachment A:

[**Note:** Attachment A to the preamble will not appear in the Code of Federal Regulations.]

Regulatory Flexibility Act Certification

I, Arthur Levitt, Chairman of the Securities and Exchange Commission, hereby certify, pursuant to 5 U.S.C. § 605(b), that the proposed amendments to rules contained in Securities Act Release No. 7793, if adopted, will not have significant economic impact on a substantial number of small entities. The proposals will not be applicable to small business issues under Regulation S–B or to small issuers using Regulation A. In addition, information to be included in the proposed disclosures should be readily available from registrants' books and records. Accordingly, the proposed schedules and amendments to rules would not have a significant impact on a substantial number of small entities.

Dated: January 21, 2000.

Arthur Levitt,

Chairman.

[FR Doc. 00–1969 Filed 1–28–00; 8:45 am]

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