

## SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 228, 229, 230, 239, 240 and 249

[Release Nos. 33-7183; 34-35893; IC-21166; File No. S7-13-95]

RIN 3235-AG49

### Use of Abbreviated Financial Statements in Documents Delivered to Investors Pursuant to the Securities Act of 1933 and Securities Exchange Act of 1934

**AGENCY:** Securities and Exchange Commission.

**ACTION:** Proposed rule.

**SUMMARY:** The Securities and Exchange Commission ("Commission") today is soliciting comment on proposed amendments to allow the use of abbreviated financial statements in annual reports delivered to shareholders pursuant to the proxy rules. Comment is also solicited on additional approaches to streamlining annual reports to shareholders. Rule changes also are proposed to allow the use of abbreviated financial statements in other disclosure documents, including prospectuses, that are required to be delivered to investors. In order to encourage individual investor comments and suggestions, the Commission is including in the Release an Appendix directed to investors, which will be published separately and distributed to investors. In addition, during the comment period, the Commission intends to hold focus groups composed of investors to assess investors' views as to the utility of sample abbreviated financial statements, as compared with full financial statements.

**DATES:** Comments on the proposed amendments should be received on or before October 10, 1995.

**ADDRESSES:** Comments should be submitted in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street NW., Washington, DC 20549. Comment letters should refer to File No. S7-13-95. All comments received will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street NW., Washington, DC 20549.

**FOR FURTHER INFORMATION CONTACT:** Craig C. Olinger, Associate Chief Accountant, at (202) 942-2960, Kenneth T. Marceron, Staff Accountant, at (202) 942-1781, or Elizabeth M. Murphy or William B. Haseltine, Special Counsels, at (202) 942-2910, Division of Corporation Finance, Securities and

Exchange Commission, 450 Fifth Street NW., Mail Stop 3-12, Washington, DC 20549.

**SUPPLEMENTARY INFORMATION:** The Commission is proposing amendments to Forms S-1, S-2, S-3, S-4, S-6, S-8, S-11, SB-1, SB-2, F-1, F-2, F-3, F-4, F-7, F-8, F-9, F-10, F-80 and 1-A<sup>1</sup> and Regulation D<sup>2</sup> under the Securities Act of 1933 ("Securities Act"),<sup>3</sup> as well as Forms 10-K and 10-KSB<sup>4</sup>, Rules 13e-3, 13e-4, 14a-3, 14c-3, 14d-1 and 14d-6<sup>5</sup> and Schedules 13E-4F, 14A, 14C, 14D-1F, and 14D-9F<sup>6</sup> under the Securities Exchange Act of 1934 ("Exchange Act").<sup>7</sup> Additionally, a new Item 305 would be added to Regulations S-B and S-K,<sup>8</sup> and new Securities Act Rule 435 and new Exchange Act Rules 14a-16 and 14c-8 would be created.

### I. Executive Summary and Background

The Commission today is publishing for comment proposals to streamline the financial information currently required to be delivered to investors in connection with the annual election of directors pursuant to the Commission's proxy regulations.<sup>9</sup> This initiative responds to concerns that the growing complexity and volume of financial information, particularly that required in notes to financial statements,<sup>10</sup> render the annual report less readable and useful to the general shareholder body.<sup>11</sup>

<sup>1</sup> 17 CFR 239.11, 12, 13, 25, 16, 16b, 18, 9, 10, 31, 32, 33, 34, 37, 38, 39, 40, 41 and 90.

<sup>2</sup> 17 CFR 230.501-508.

<sup>3</sup> 15 U.S.C. 77a et seq.

<sup>4</sup> 17 CFR 249.310 and 310b.

<sup>5</sup> 17 CFR 240.13e-3, 13e-4, 14a-3, 14c-3, 14d-1 and 14d-6.

<sup>6</sup> 17 CFR 240.13e-102, 14a-101, 14c-101, 14d-102, and 14d-103.

<sup>7</sup> 15 U.S.C. 78a et seq.

<sup>8</sup> 17 CFR Part 228 and 17 CFR Part 229.

<sup>9</sup> See Rules 14a-3 and 14c-3.

<sup>10</sup> Financial statements prepared in conformity with generally accepted accounting principles ("GAAP") are required to include adequate disclosure of material matters (Statement on Auditing Standards ("SAS") No. 32, *Adequacy of Disclosure in Financial Statements*). Disclosures in notes to the financial statements are intended to provide material information necessary to make the financial statements, in light of the circumstances under which they are made, not misleading (Rule 4-01(a) of Regulation S-X [17 CFR 210.4-01(a)]). In recent decades, numerous requirements have been adopted that specify in detail the content of disclosures required in the notes to the financial statements.

<sup>11</sup> See, e.g., Groves, Ray J., "Overload of Financial Disclosure Rules is Defeating the Purpose of the Exercise," *American Banker* (Jan. 3, 1995); Beresford, Dennis R. and Hepp, John A., *Financial Accounting Series: Status Report*, No. 149-B, "Financial Statement Disclosures: Too Many or Too Few?" (May 25, 1995); Deloitte & Touche LLP, *Summary Annual Reporting, Improving Shareholder Communications* (1995), at 3-4; Cook, Michael and Sutton, Michael H., "Summary Annual Reporting: A Cure for Information Overload," *Fin. Executive* (Jan/Feb 1995).

Proponents of annual report simplification believe that streamlined annual reports will allow registrants both to communicate more effectively with shareholders in the annual report by being able to highlight key financial items and to reduce the costs of preparing and delivering the annual report. These commentators are of the view that a large segment of a company's shareholder body does not review and analyze the detailed information in the notes to the financial statements, particularly in determining whether to vote for director nominees, and companies therefore should not have to incur the cost of delivery of the full set of financial statements in the annual report.

Various approaches have been suggested to accomplish the streamlining. One, which is contained in rule amendments proposed today, would permit an eligible registrant to use financial statements with significantly abbreviated notes ("abbreviated financial statements") in annual reports to shareholders. The annual report would prominently identify the financial statements as abbreviated and state that the registrant will provide upon request, and without charge, a copy of the full financial statements. The full financial statements would be required to be filed in the registrant's annual report on Form 10-K, 10-KSB or 20-F;<sup>12</sup> registrants are already required to advise shareholders in the proxy statement or annual report that the Form 10-K or 10-KSB will be provided upon request and without charge. This would continue under the proposed rules.

In summary, disclosure required in the notes to the abbreviated financial statements would include:

- the significant accounting policies of the registrant;
- certain matters materially affecting the comparability of amounts reported in the financial statements;
- circumstances identified in explanatory language added to the independent accountant's report, contingencies, loan defaults, and subsequent events; and
- related party transactions.

The abbreviated financial statements contemplated by the proposed rule would omit a significant number of notes to financial statements that are required under GAAP. Appendix A to this release summarizes the common disclosures that would be omitted from the abbreviated financial statements under the proposals. In general, the disclosures that would be omitted from

<sup>12</sup> 17 CFR 249.220f.