

265-11

MEMORANDUM

February 28, 1977

TO : The Commission  
FROM : The Division of Corporation Finance  
RE : Recommendations to the Commission on Industry Segment Reporting made by the Advisory Committee on Corporate Disclosure

Recommendation : That the Commission

1) defer formal approval of the Advisory Committee's recommendations with respect to a) integration of textual disclosures in Commission forms with segmented disclosures required by SFAS No. 14 and b) presentation of segment financial information on a quarterly basis until such time as the Division may conclude its consideration of these matters and present specific proposals regarding their implementation; and

2) initiate implementation of Recommendation No. 3 of the Advisory Committee and request public comment regarding segment reporting for the railroad industry in connection with the request for comment regarding railroad industry disclosure guidelines.

ACTION REQUESTED BY: In connection with the memorandum to the Commission by the Advisory Committee regarding segment reporting.

The Advisory Committee on Corporate Disclosure has submitted certain recommendations to the Commission in a memorandum dated February 15, 1977. These recommendations reflect the Committee's endorsement of the statement on financial reporting for segments of a business enterprise which was released by the Financial Accounting Standards Board in December, 1976 ("SFAS No. 14"). Although the Division of Corporation Finance has not concluded its consideration of the Committee's recommendations numbered 1 and 2 below,

-2-

the Division wishes to apprise the Commission of its tentative intentions as to these matters. Pending the submission of the Division's final conclusions and proposals, it is recommended that the Commission not formally adopt recommendations 1 and 2. As explained more fully below, the Division proposes that recommendation number 3 be implemented at this time.

1. Integration of textual disclosures in Commission forms with segmented disclosures required by SFAS No. 14.

The Division concurs with the Committee's recommendation that the textual business discussion required by the Commission forms should be integrated with the financial statement disclosure of the results of operations and investment in productive capacity by homogeneous geographical and industry segments of the business which SFAS No. 14 will require. The financial information required by SFAS No. 14 is more complete than the line of business information required by the forms. Therefore, we intend to recommend to the Commission for publication a release which will propose for comment certain revisions to Forms S-1 and S-7 under the Securities Act of 1933 and Forms 10 and 10-K under the Securities Exchange Act of 1934. The proposed revisions would require inclusion within the business discussed in the reporting document of five year financial information by industry segment prepared pursuant to SFAS No. 14 in lieu of the line of business information now required. Sales information as to classes of similar products or services would still be required to the extent industry segments are not classified by product lines. The release would permit registrants to comply with the proposed amendments prior to their adoption.

The Division also concurs with the Committee's recommendation that the textual disclosure of the enterprise's business and the management analysis of the Statement of Operations be presented by and focused on this segmented information. The Division intends to recommend to the Commission the publication for comment of proposed revisions to the disclosure forms and Guides 1 and 22 which would require this refocusing of the business discussion and the management's analysis.

It is anticipated that the above referenced releases will be submitted to the Commission in early August, 1977.

2. Presentation of segment financial information on a quarterly basis.

-3-

The Division has not concluded its consideration of the recommendation made by the Advisory Committee that quarterly reports include segment financial information. Even if upon completion of its review, the Division does not concur with this suggestion, we intend to recommend to the Commission concurrent with the proposals under recommendation number 1 the publication for comment of a release proposing the amendment as a revision recommended by the Committee.

3. Development on an industry basis of guidelines for disclosure of dollar sales and volume of each class of similar products or services within a segment where appropriate.

The Division concurs with the Committee's recommendation that consideration be given to the development of guidelines for disclosure of dollar sales and volume of each class of similar products or services within a segment. Such guidelines would set forth a useful product line breakdown.

The Division believes that the release announcing the development of railroad industry disclosures, which is currently before the Commission 1/, is an appropriate point for the initial implementation of segment reporting. Specifically, it is proposed that the Railroad Guidelines release be amended to request public comment as to whether disclosure should be provided of both dollar amount and unit volume of sales of each class of similar products or services within an industry segment and as to what percentage of total sales is an appropriate trigger for such disclosure. In addition, public comment would be requested as to the most appropriate product or service line breakdown for displaying such sales information.

#### Recommendation

Based on the above, it is recommended that the Commission:

1. defer formal approval of the Advisory Committee's recommendations with respect to a) integration of textual disclosures in Commission forms with segmented disclosures and b) presentation of segment financial information on a quarterly basis until such time as the Division may

---

1/ See memorandum to the Commission from the Division of Corporation Finance and the Office of the Chief Accountant dated February 23, 1977.

-4-

conclude its consideration of these matters and present specific proposals regarding their implementation; and

2. initiate implementation of Recommendation No. 3 of the Advisory Committee and request public comment regarding segment reporting for the railroad industry in connection with the request for comment regarding railroad industry disclosure guidelines.

Prepared By

J. Rowland Cook 51750  
Linda L. Griggs 51750