

and energy aspects of the proposal. Communications should identify the airspace docket and be submitted in triplicate to the address listed above. Commenters wishing the FAA to acknowledge receipt of their comments on this notice must submit with those comments a self-addressed, stamped postcard on which the following statement is made: "Comments to Airspace Docket No. 87-ASW-14." The postcard will be date/time stamped and returned to the commenter. All communications received before the specified closing date for comments will be considered before taking action on the proposed rule. The proposal contained in this notice may be changed in the light of comments received. All comments submitted will be available for examination in the Office of the Regional Counsel, 4400 Blue Mound Road, Fort Worth, TX, both before and after the closing date for comments. A report summarizing each substantive public contact with FAA personnel concerned with this rulemaking will be filed in the docket.

Availability of NPRM's

Any person may obtain a copy of this Notice of Proposed Rulemaking (NPRM) by submitting a request to the Federal Aviation Administration, Manager, Airspace and Procedures Branch, Air Traffic Division, Southwest Region, P.O. Box 1689, Fort Worth, TX 76101. Communications must identify the notice number of this NPRM. Persons interested in being placed on a mailing list for future NPRM's should also request a copy of Advisory Circular No. 11-2 which describes the application procedure.

The Proposal

The FAA is considering an amendment to § 71.181 of Part 71 of the Federal Aviation Regulations (14 CFR Part 71) to amend the existing 700-foot transition area at Watonga, OK. This action is necessary since there is a new NDB Rwy 17 SIAP being developed that will utilize the proposed Watonga NDB. This amendment will consist of a 6-mile wide addition extending approximately 3 miles north from the edge of the present transition area. Section 71.181 of Part 71 of the Federal Aviation Regulations was republished in Handbook 7400.6C dated January 2, 1987.

The FAA has determined that this proposed regulation only involves an established body of technical regulations for which frequent and routine amendments are necessary to keep them operationally current. It, therefore—(1) is not a "major rule"

under Executive Order 12291; (2) is not a "significant rule" under DOT Regulatory Policies and Procedures (44 FR 11034; February 26, 1979); and (3) does not warrant preparation of a regulatory evaluation as the anticipated impact is so minimal. Since this is a routine matter that will only affect air traffic procedures and air navigation, it is certified that this rule, when promulgated, will not have a significant economic impact on a substantial number of small entities under the criteria of the Regulatory Flexibility Act.

List of Subjects in 14 CFR Part 71

Aviation safety, Transition areas.

The Proposed Amendment

PART 71—[AMENDED]

Accordingly, pursuant to the authority delegated to me, the FAA proposes to amend Part 71 of the Federal Aviation Regulations (14 CFR Part 71) as follows:

1. The authority citation for Part 71 continues to read as follows:

Authority: 49 U.S.C. 1348(a), 1354(a), 1510; Executive Order 10854; 49 U.S.C. 106(g) (Revised Pub. L. 97-449, January 12, 1983); 14 CFR 11.69.

§ 71.181 [Amended]

2. Section 71.181 is amended as follows:

Watonga, OK [Amended]

That airspace extending upward from 700 feet above the surface within a 6.5-mile radius of the Watonga Airport (latitude 35°51'46" N., longitude 98°25'13" W.), and within 3 miles each side of the 008° bearing from the Watonga NDB (latitude 35°51'44" N., longitude 98°25'30" W.), extending from the 6.5-mile radius area to 10 miles north of the airport.

Issued in Fort Worth, TX, on April 9, 1987.

Larry L. Craig,

Assistant Manager, Air Traffic Division, Southwest Region.

[FR Doc. 87-9247 Filed 4-23-87; 8:45 am]

BILLING CODE 4910-13-M

DEPARTMENT OF COMMERCE

Bureau of the Census

15 CFR Part 30

[Docket No. 70467-7067]

Foreign Trade Statistics

AGENCY: Bureau of the Census, Commerce.

ACTION: Notice of proposed rulemaking.

SUMMARY: It is proposed to amend the Foreign Trade Statistics Regulations to

raise the present exemption for filing Shipper's Export Declarations (except for shipments requiring a validated export license) from \$1000 to \$1500. The exemption for shipments through the U.S. Postal Service will remain at \$500.

DATE: Comments should be submitted on or before June 23, 1987.

ADDRESS: Send comments to the Director, Bureau of the Census, Washington, DC 20233.

FOR FURTHER INFORMATION CONTACT: Don L. Adams, Chief, Foreign Trade Division, Bureau of the Census, (301) 763-5342.

SUPPLEMENTARY INFORMATION: The proposal to raise the minimum value requirement for the filing of Shipper's Export Declarations from the present level of \$1001 to a new level of \$1501, if implemented, is expected to reduce the number of required Shipper's Export Declarations by almost one million documents per year. The proposed increase in the value limit is expected to increase the share of exempted shipments from about 1.5 percent of the overall value of exports to 2.0 percent. While there will be some loss of statistical detail at the more detailed levels (i.e., commodity by country, commodity by country by district, etc.), the benefits accruing to both the public and the Census Bureau by the reduction in the number of Shipper's Export Declarations required to be filed and processed outweigh the anticipated loss in statistical detail. Raising the value exemption for filing Shipper's Export Declarations to \$1500 is a change that relieves documentation burden.

This is not a major rule in accordance with the criteria set forth in Executive Order 12291. Therefore, no Regulatory Impact Analysis is required. Pursuant to the provisions of the Regulatory Flexibility Act of 1980 (Pub. L. 96-354), the General Counsel of the Department of Commerce certified to the Small Business Administration that this amendment will not have a significant economic effect on a substantial number of small entities because it raises the exemption level, thereby reducing the reporting requirements of smaller entities. The collection of this information has been approved by the Office of Management and Budget under control numbers 0607-0001, 0607-0018, 0607-0150, and 0607-0152. Moreover, the amendment imposes no additional burden on the public, thus satisfying the requirements of the Paperwork Reduction Act of 1980.

List of Subjects in 15 CFR Part 30

Economic statistics, Foreign trade, Reporting and recordkeeping requirements.

To effect this change, it is proposed to amend the Foreign Trade Statistics Regulations (15 CFR Part 30) as set forth below.

PART 30—[AMENDED]

1. The authority citation for 15 CFR Part 30 continues to read as follows:

Authority: Secs. 30.1 to 30.95 issued under R.S. 161; (5 U.S.C. 301); Reorganization Plan No. 5 of 1950, 15 FR 3174, 64 Stat. 1263; Department of Commerce Order No. 85, June 21, 1962, 27 FR 6397. Interpret or apply 76 Stat. 951.77A Stat. (13 U.S.C. 301-307; 19 U.S.C. 1202, 1484 (e)) unless otherwise noted.

2. Section 30.55(h) is amended by changing "\$1000" wherever it appears in this section to "\$1500," so that as revised, § 30.55(h) reads as follows:

§ 30.55 Miscellaneous exemptions.

(h) Shipments (except shipments requiring a validated export license and excluding shipments through the U.S. Postal Service) between the United States and Puerto Rico, to the Virgin Islands of the United States, and to all countries except countries prohibited by the Export Administration Regulations of the Office of Export Administration (15 CFR Parts 368-399) * where the value of the commodities classified under a single Schedule B number and shipped on the same exporting carrier from one exporter to one importer is \$1500 or under:

Provided, however, that this exemption shall be conditioned upon the filing of such reports as the Bureau of the Census shall periodically require to compile statistics on \$1500-and-under shipments.

John G. Keane,
Director, Bureau of the Census.
January 21, 1987.

I Concur:
Francis A. Keating III,
Assistant Secretary, Department of the Treasury.

February 27, 1987.
[FR Doc. 87-9318 Filed 4-23-87; 8:45 am]

BILLING CODE 3510-7-M

FEDERAL TRADE COMMISSION**16 CFR Part 703****Rule on Informal Dispute Settlement Procedures**

AGENCY: Federal Trade Commission.

ACTION: Notice of advisory committee meetings.

SUMMARY: This notice announces the dates, times, and location of future meetings of the Rule 703 Advisory Committee. Fifteen days' notice of advisory committee meetings is required under the Federal Advisory Committee Act.

DATES: The Rule 703 Advisory Committee is scheduled to meet on the following dates: May 5, 1987 at 10:00 a.m.; May 6, 1987 at 9:30 a.m.; June 16, 1987 at 10:00 a.m.; and June 17, 1987 at 9:30 a.m. All of these meetings will be open to the public. The June 16-17 meetings are additional meetings not previously scheduled. The May meetings remain as previously announced on March 24, 1987 (52 FR 9314).

ADDRESS: All meetings will be held at the Conservation Foundation, 1255 23rd Street, NW., Washington, DC 20037.

FOR FURTHER INFORMATION CONTACT:**Chairpersons:**

John A.S. McGlennon, ERM-McGlennon Associates, 283 Franklin Street, Boston, MA 02110, (617) 357-4443
Gail Bingham, Conservation Foundation, 1255 23rd Street, NW., Washington, DC 20037, (202) 293-4800

FTC Staff:

Gary M. Laden, Division of Marketing Practices, Federal Trade Commission, Washington, DC 20580, (202) 326-3118.

SUPPLEMENTARY INFORMATION: On August 20, 1986, the Commission published a notice (51 FR 29666) announcing the formation of an advisory committee to develop proposed revisions to the Rule on Informal Dispute Settlement Procedures ("Rule 703"), 16 CFR Part 703. The Federal Advisory Committee Act, 5 U.S.C. App. I 1-15, and its implementation regulations require that advisory committee meetings be open to the public and that they be announced in the Federal Register at least fifteen days in advance. Accordingly, the Commission is publishing this notice of future meetings of the Rule 703 Advisory Committee. The dates, times, and location of the scheduled meetings appear above.

The meetings announced above constitute the full remaining schedule of the Rule 703 Advisory Committee. In its previous notices concerning the committee, the Commission stated that the committee would have eight months after its organizational meeting to complete negotiations. Thus, no meetings previously were scheduled beyond May 1987. However, at its March 4 meeting, the advisory

committee discussed its intent to schedule two additional meetings in June, in order to complete its work. The charter establishing the committee permits some flexibility in scheduling negotiation meetings. Since the Rule 703 Advisory Committee seeks to extend its negotiations to June, 1987, the Commission has agreed to participate in negotiations on June 16-17, 1987.

The remaining meetings will principally be devoted to discussion of progress reports and recommendations from subcommittees that were formed at the committee's October 22, 1986 meeting. Each subcommittee has been delegated a number of particular issues for detailed discussion. (Lists of the individuals participating on each subcommittee and the issues within each subcommittee's purview are available from the chairpersons or the FTC staff.) The subcommittees are to develop consensus recommendations on each issue and report back to the full committee. Subcommittee recommendations must be approved by consensus of the full committee.

Because of the inherently fluid nature of the negotiation process, it is not possible for the committee to develop more specific agendas for the announced meetings at this time. The public is encouraged, however, to contact the chairpersons or FTC staff as each meeting approaches for further information on the specific matters likely to be brought up.

By direction of the Commission.

Emily H. Rock,

Secretary.

[FR Doc. 87-9319 Filed 4-23-87; 8:45 am]

BILLING CODE 6750-01-M

SECURITIES AND EXCHANGE COMMISSION**17 CFR Part 229**

[Release No. 33-6711; 34-24356; File No. S7-14-87]

Concept Release on Management's Discussion and Analysis of Financial Condition and Operations

AGENCY: Securities and Exchange Commission.

ACTION: Advance notice of possible Commission action and request for public comment.

SUMMARY: The Commission is seeking comment on issues relating to the Management's Discussion and Analysis ("MD&A") of financial condition and operations. In particular, the

Commission is seeking comment concerning the adequacy of current rules and the costs and benefits of suggested revisions made by certain accounting firms. The Commission will review comments received in response to this release to determine whether future rulemaking is appropriate.

DATE: Comments should be received by June 23, 1987.

ADDRESS: Comment letters should refer to File S7-14-87 and be submitted in triplicate to Jonathan G. Katz, Secretary, U.S. Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. The Commission will make all comments available for public inspection and copying in its Public Reference Room at the same address.

FOR FURTHER INFORMATION CONTACT: Brian J. Lane (202) 272-2589, Office of Disclosure Policy, Division of Corporation Finance or Laurel Bond Mitchell (202) 272-2130, Office of the Chief Accountant.

SUPPLEMENTARY INFORMATION: In this concept release, the Commission requests comment concerning Management's Discussion and Analysis. This requirement is the subject of recommendations from members of the accounting profession calling for a more specific approach to requiring disclosure of business risks and uncertainties, as well as additional board of director scrutiny and independent auditor association with these disclosures.

I. Background and Overview

Management's Discussion and Analysis is required by Item 303 of Regulation S-K.¹ This Item calls for a discussion of liquidity, capital resources, results of operations, and "other information that the registrant believes is necessary to an understanding of its financial condition, changes in financial condition and results of operations."² Pursuant to this Item, registrants are required to disclose presently known material changes, trends, and uncertainties that the registrant reasonably expects will have a material impact on future sales, revenues, or income from continuing operations.³ Additionally, they are encouraged, but not required, to supply other "forward-looking information".⁴

A. Historical Development of MD&A

The origins of MD&A date to 1968 when the Guides for Preparation and Filing of Registration Statements were adopted.⁵ These guides, which reflected the policies and practices of the Commission's Division of Corporation Finance, called for a summary of earnings. This included a discussion of unusual conditions that affected the appropriateness of the earnings presentation and footnotes indicating adverse changes in operating results subsequent to the latest period included in the earnings summary.

In 1974, the Commission amended Guide 22, which covered the summary of earnings for Securities Act registration statements, and adopted an identical Guide 1 for filings under the Securities Exchange Act, which covered the summary of operations.⁶ In addition to the summary required prior to 1974, the amended Guides called for a full narrative explanation of the summary to enable investors to appraise the quality of earnings or operations. A separate discussion and analysis of the summary was required, including explanations of "(1) material changes from period to period in the amounts of the items of revenues and expenses, and (2) changes in accounting principles or practices or in the method of their application that have a material effect on net income as reported."⁷ As Guide 22 stated, this discussion was intended "to enable investors to compare periodic results of operations and to assess the source and probability of recurrence of earnings (losses)."⁸

To give guidance as to what was material, a percentage test was adopted. Registrants were required to discuss items of revenue or expense that changed more than 10% from the prior period or changed more than 2% of the average net income or loss for the most recent three years presented. However, disclosure also was required if an item did not meet the applicable percentage test but was necessary to an understanding of the summary. Conversely, where a registrant believed that a particular item was unnecessary to an understanding of the summary, the Division considered petitions for exemptions where the percentage test was met.

As part of the new Form 10-K project,⁹ in 1980 the Commission revisited the requirements of MD&A because it believed that the guides were not fulfilling their objectives, their focus was too narrow, and the percentage tests were being applied mechanistically without regard to materiality or relevance.¹⁰ As a result, the Commission made numerous changes. The changes, in part, reflected the Commission's concerns about the economic climate of the time. High interest rates and inflation were significant problems and the revised MD&A was designed to foster disclosure of trends and uncertainties arising from these and other factors.

Specifically, the Commission adopted MD&A as a separate requirement and (1) changed the focus from the summary of operations to the financial statements as a whole; (2) required a discussion of three financial aspects—liquidity, capital resources, and results of operations; (3) within each of these, required disclosure of favorable or unfavorable trends and identification of certain material events or uncertainties; (4) required disclosure about the effects of inflation and changing prices; (5) deleted the percentage tests of the guides; and (6) encouraged, but did not specifically require, forward-looking statements.

These changes made the rules far more comprehensive. Nonetheless, the rules remained intentionally general in nature. The Commission believed that a flexible approach would elicit more meaningful disclosure and avoid boilerplate discussions which a more specific approach could foster. Further, the Commission reasoned that, because each registrant is unique, no one checklist could be fashioned to cover all registrants comprehensively.

One year after adopting the new MD&A requirements, the Commission published a release giving examples of MD&A disclosure by several registrants, without expressing a view as to the quality of each example.¹¹ The release stated that the staff of the Division of Corporation Finance, with the assistance of the Office of the Chief Accountant, would continue to monitor MD&A responses and, if necessary, would provide additional guidance in a subsequent release.

¹ 17 CFR 229.303.

² 17 CFR 229.303(a).

³ 17 CFR 229.303(a)(3)(ii).

⁴ 17 CFR 229.303(a) Instruction 7; see also 17 CFR 230.175; 17 CFR 240.3b-6; Securities Act Release 33 6084 (June 25, 1979) [44 FR 33810] (safe harbor rules for projections).

⁵ Securities Act Release 33-4936 (December 9, 1968) [33 FR 18617].

⁶ Securities Act Release 33-5520 (August 14, 1974) [39 FR 31894].

⁷ *Id.*, Guide 22(b).

⁸ *Id.*

⁹ Securities Act Release 33-6231 (September 2, 1980) [45 FR 63690].

¹⁰ *Id.*

¹¹ Securities Act Release 33-6349 (September 28, 1981).

II. The Purpose of MD&A and Current Requirements

The Commission has long recognized the need for a narrative explanation of the financial statements, because a numerical presentation and brief accompanying footnotes alone may be insufficient for an investor to judge the quality of earnings and the likelihood that past performance is indicative of future performance. MD&A is intended to give the investor an opportunity to look at the company through the eyes of management by providing both a short and long-term analysis of the business of the company. The Item asks management to discuss the dynamics of the business and to analyze the financials.

As the Commission stated more than ten years ago, it is important that investors understand the extent to which accounting changes and changes in business activity "have affected the comparability of year-to-year data and [they] should be in a position to assess the source and probability of recurrence of net income (or loss)."¹² Material facts that must be disclosed elsewhere in the filing also must be analyzed in the MD&A section if they have had or may have a favorable or unfavorable effect upon the amount of net income, the earnings trend, or the financial condition of the company and its prospects.

A wide range of corporate events and changes may warrant MD&A disclosure. The examples provided by the Commission in 1974 are still useful illustrations:

While it is not feasible to specify all subjects which should be covered in the discussion and analysis of the summary, the following are examples which registrants should consider in making disclosure:

1. Material changes in product mix or in the relative profitability of lines of business;
2. Material changes in advertising, research, development, product introduction or other discretionary costs;
3. The acquisition or disposition of a material asset other than in the ordinary course of business;
4. Material and unusual charges or gains, including credits or charges associated with discontinuation of operations;
5. Material changes in assumptions underlying deferred costs and the plan for amortization of such costs;
6. Material changes in assumed investment return and in actuarial assumptions used to calculate contributions to pension funds; and
7. The closing of a material facility or material interruption of business or completion of a material contract.¹³

Perhaps the most misunderstood aspect of MD&A is its relationship to statements of a prospective nature. MD&A requires disclosure of "known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way."¹⁴ Additionally, the Item calls for a description of any known material trends in the registrant's capital resources and any expected changes in the mix or cost of such resources.¹⁵ Elsewhere, the Item requires disclosure of known trends or uncertainties that are reasonably expected to have a material impact on net sales, revenues, or income from continuing operations.¹⁶ The Instructions add that MD&A "shall focus specifically on material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."¹⁷

Conversely, Instruction 7 of Item 303(a) states that registrants are encouraged, but not required, to supply "forward-looking" information. The Instruction was not intended to detract from the requirements noted above but instead to make clear that "forward-looking information" (as that term is used in the Instruction) should be distinguished from presently known data that is reasonably expected to have a material impact on future results.

Both required disclosure regarding the future impact of presently known trends, events or uncertainties and optional forward-looking information may involve some prediction or projection. The distinction between the two rests with the nature of the prediction required. Required disclosure is based on currently known trends, events, and uncertainties that are reasonably expected to have material effects, such as: A reduction in the registrant's product prices; erosion in the registrant's market share; changes in insurance coverage; or likely non-renewal of a material contract. In contrast, optional forward-looking disclosure involves anticipating a future trend or event or anticipating a less predictable impact of a known event, trend, or uncertainty.

III. Proposals From the Accounting Profession

It has been over six years since the MD&A rules were adopted and concerns

are again being raised about the adequacy of MD&A requirements. In particular, members of the accounting profession have made recommendations to amend MD&A. While the Commission has not concluded that any change in MD&A requirements is necessary, it is soliciting comment on these recommendations and other possible changes in the MD&A requirements.

In 1986, Coopers & Lybrand submitted to the Commission's Office of the Chief Accountant a proposal calling for increased MD&A disclosure of risks and recommending auditor association with MD&A disclosure ("Coopers Proposal"). Shortly thereafter, the managing partners of seven major accounting firms issued a white paper entitled "The Future Relevance, Reliability, and Credibility of Financial Information: Recommendations to the AICPA Board of Directors" ("7 Firms Recommendations").¹⁸ The 7 Firms Recommendations similarly call for increased disclosure of risks and audit coverage of MD&A.

A. Coopers Proposal

The Coopers Proposal would require (1) a more focused disclosure of business risks; (2) review and approval of these disclosures by the registrant's board of directors; and (3) a determination as to the reasonableness of these disclosures by independent auditors. This proposal would restructure Item 303 into three substantive parts: analysis of historical financial information; assessment of risk factors, future financial condition, and results of operations; and management's representations.

The historical section would call for year-to-year comparisons of financial information. The Coopers Proposal would require discussion of unusual or infrequent events that materially affect the amount of reported income and discussion of significant components of revenues or expenses that are necessary to an understanding of the results of operations. If there are material changes in net sales or revenues, the registrant would be required to explain the extent to which these changes are attributable to sales prices, amount of goods or services sold, or to the introduction or discontinuance of products or services. Additionally, Coopers would require an impact analysis of inflation on net sales and revenues.

¹⁸ The 7 Firms are: Arthur Andersen & Co.; Arthur Young; Coopers; Deloitte Haskins & Sells; Ernst & Whinney; Peat, Marwick, Mitchell & Co.; and Touche Ross & Co. Price Waterhouse has its own proposal which does not address MD&A specifically.

¹² Securities Act Release 33-5520 (August 14, 1974) [39 FR 31894].

¹³ *Id.*, Guide 22(d).

¹⁴ 17 CFR 229.303(a)(1).

¹⁵ 17 CFR 229.303(a)(2)(ii).

¹⁶ 17 CFR 229.303(a)(3)(ii).

¹⁷ 17 CFR 229.303(a) Instruction 3.

The second section would cover information for one year in the future, with information beyond one year encouraged.

Information would be required with respect to known trends, events and uncertainties concerning the following categories: liquidity, capital resources, results of operations, principal products, legal proceedings, and key personnel. Coopers specifically would require disclosure relating to: restrictions that may limit dividend payments; competitive position; new products; sources and cost of raw material; sources and cost of labor; technological obsolescence; customer dependence; pending legislation; and socio-economic factors such as political unrest and foreign exchange rates.

The third section relates to management's representations. Management would be required to indicate specifically whether future operating results are expected to vary from historical patterns and disclose any significant declines in revenues, stockholders' equity, or working capital that are anticipated.

B. 7 Firms Recommendations

With respect to MD&A, the 7 Firms Recommendations are not as specific as the Coopers Proposal.¹⁹ The 7 Firms would require increased financial statement disclosures of risks and uncertainties and audit coverage of MD&A. As to risks, the proposal would require that risk disclosures required in registration statements pursuant to the Securities Act of 1933 be adapted for disclosure in annual financial statements filed under the Securities Exchange Act of 1934. This risk disclosure section would be audited and be separate from the MD&A. The 7 Firms state that the current MD&A requirements are helpful but have two weaknesses: "[T]he requirement is stated too generally to result in meaningful disclosure and management's discussion and analysis is not subject to audit coverage."²⁰

¹⁹ The 7 Firms made eight recommendations: (1) Improve disclosure of risks and uncertainties, (2) audit the risk disclosure, (3) require membership in the SEC Practice Section of the American Institute of Certified Public Accountants ("AICPA"), (4) extend SEC jurisdiction to any companies with a public interest, (5) enhance the AICPA's Auditing Standards Board's capacity to develop auditing standards, (6) enhance public perception of the independence and objectivity of auditors, (7) enhance public confidence in the Special Investigations Committee of the SEC Practice Section of the AICPA, and (8) eliminate opinion shopping.

²⁰ 7 Firms Recommendations at 4.

C. Comparison of the Proposals to Current Requirements

Much of what Coopers recommends is required specifically by current rules. Coopers recognizes that fact, but states that the information "is not drawn together in one location and discussed in a focused manner."²¹ The most significant structural change in MD&A proposed by Coopers is the shift in emphasis to a discussion of risk factors similar to that required in a prospectus pursuant to Item 503(c) of Regulation S-K.²² The 7 Firms Recommendations call for similar disclosure, but would require a separate risk factor section, rather than incorporating it into MD&A.

Coopers advocates another change from the present rules in requiring, rather than encouraging, forward-looking information in 15 areas; current rules require information in many of these areas as listed.

Proposed disclosure item	Present rule provision ¹
1. Year-to-year comparisons.	17 CFR 229.101(b).
2. Unusual events that affect income.	17 CFR 229.303(a)(3)(i).
3. Analysis and discussion of significant changes in net sales or revenues.	17 CFR 229.303(a)(3)(iii).
4. Inflation impact analysis.	17 CFR 229.303(a)(3)(iv).
5. Analysis of significant changes in major balance sheet accounts.	
6. Risk factor assessment for one year for: ²	
(a) Liquidity	17 CFR 229.303(a)(1).
(i) Possible dividend restrictions.	17 CFR 229.201(c).
(b) Capital resources.	17 CFR 229.303(a)(2).
(c) Results of operations.	17 CFR 229.303(a)(3).
(d) Principal products.	17 CFR 229.101(c)(1)(i).
(i) Competitive position.	17 CFR 229.101(c)(1)(x).
(ii) New products ..	17 CFR 229.101(c)(1)(ii).
(iii) Sources for raw material.	17 CFR 229.101(c)(1)(iii).
(iv) Labor	17 CFR 229.101(a)(2)(4).
(v) Technological obsolescence.	17 CFR 229.101(c)(1)(xiii). ³
	17 CFR 229.101(c). ⁴ (generally)

²¹ Coopers Proposal at 3.

²² 17 CFR 229.503(c). Item 503(c) applies only to high risk or speculative offerings.

Proposed disclosure item	Present rule provision ¹
(vi) Customer dependence.	17 CFR 229.101(c)(1)(vii).
(vii) Pending legislation.	17 CFR 229.303(a). ⁵ (generally).
(viii) Socio-economic factors.	17 CFR 229.101(d)(2). ⁶
(e) Legal proceedings.	17 CFR 229.303(a); Instruction 11.
(f) Key personnel	17 CFR 229.401. ⁷
7. Management statement on whether future results are expected to vary from historical patterns.	17 CFR 229.303(a) Instruction 3.
8. Management statement on whether declines in revenue, shareholders equity, or working capital are expected.	17 CFR 229.101(a)(3). ⁸
9. Management's going concern statement.	Certification of Financial Statements, 17 CFR 211, Subpart A. ⁹

¹ In addition to specific provisions, disclosure of some of the proposed items may be required pursuant to general materiality principles such as 15 U.S.C. 78j; 15 U.S.C. 77q; 17 CFR 230.408; 17 CFR 240.12b-20.

² Coopers would require risk assessment for one year subsequent to the last financials in the areas under point six above. The current rules are more broadly written and do not focus on risk assessment.

³ Item 101(a)(4) requires disclosure of anticipated material changes in number of employees in the various departments while 101(c)(1)(xiii) requires disclosure of the number of employees in general.

⁴ The current rules do not require expressly that technological obsolescence be disclosed, but it is required generally by provisions such as 101(c)(1)(i), (ii) and (x).

⁵ Pending legislation is not required specifically in the current rules; however, MD&A requires disclosure of material uncertainties affecting liquidity, capital resources, or operations. Thus, if pending legislation is reasonably likely to have a material impact upon one or more of these, it must be disclosed under Item 303. See, e.g., FR-26 Securities Act Release 33-8671 (October 23, 1986) [51 FR 39652] (disclosure of future effects of the new tax code).

⁶ Item 101(d)(2) concerns risks to foreign operations. Coopers' Proposal mentioned political unrest or extreme inflation in a foreign country as examples of socio-economic risks. Thus, 101(d)(2) may be relevant. Item 303(a) Instruction 11 concerns foreign registrants and policies of their home country that could affect operations.

⁷ Item 401 requires disclosure concerning directors, executive officers, promoters, and control persons. Coopers would require disclosure of dependence on key personnel.

* This requirement applies to sales or income only.

⁹ Section 607.02 of the Codification of Financial Reporting Policies, containing the substance of FR-16 Securities Act Release 33-6512 (February 15, 1984) [49 FR 6707], states that a filing containing an accountant's report that is qualified as a result of questions about the entity's continued existence must contain appropriate disclosure of the registrant's difficulties and viable plans for continued operations.

Current practice does not require MD&A to be audited. The 7 Firms call for audit coverage and Coopers would have independent auditors directly associated with the disclosure to assess the reasonableness of management's analysis by requiring the auditor to review the disclosures and modify the standard auditors' report if he is in disagreement with the information disclosed.

Although there is no current requirement that any of the MD&A disclosure be audited or covered by the auditors' opinion, the auditor is expected to have subjected the disclosures to some degree of review and evaluation. In 1975, Statement on Auditing Standards No. 8 (AU Section 550) was issued by the Auditing Standards Board. The Statement addresses the auditor's responsibility with respect to "Other Information in Documents Containing Audited Financial Statements." The standard indicates that while the auditor is not obligated to perform any procedures to corroborate information outside of the financial statements identified in the audit report, he should read the other information included in the document containing his report to determine whether such information or its manner of presentation is consistent with the financial statements on which his opinion has been expressed. The standard goes on to suggest the steps the auditor may consider if he becomes aware of a material inconsistency or misstatement.²³

IV. Request for Comment

To assist the Commission in its determination as to the need for any revision of current MD&A requirements, commentators are asked to comment on the costs and benefits of the Coopers Proposal and 7 Firms

Recommendations.²⁴ Other comments concerning the costs and benefits of specific revisions of MD&A generally are encouraged.

Commentators are requested to address specifically the following issues:

1. Are the present MD&A disclosure requirements attaining the Commission's objectives?
2. Should the MD&A be changed to become more of a risk analysis?
3. Should MD&A be audited or be subject to limited review procedures by independent accountants?²⁵ Does the expertise of auditors enable them to assess the judgments made by management in determining the content of its MD&A disclosure?
4. Would an audit of non-historical information change the nature of the information reported and, if so, how?
5. Would more specific MD&A requirements result in improved disclosure? If so, what specific new disclosure requirements would result in improved disclosure?
6. Pursuant to current MD&A requirements, is sufficient forward-looking information being disclosed? If not, are there feasible ways to elicit more forward-looking disclosure?
7. Should all related disclosure of risks be included in MD&A?
8. Should annual financial statements be accompanied by a risk disclosure section similar to that required in a prospectus?
9. Should MD&A be required for offerings registered on Form S-18?²⁶ Should it be required only in S-18 offerings where there is a two or three year operating history?
10. What impact, if any, would adoption of the proposals have on the incidence of litigation concerning the adequacy of disclosure?
11. How will the proposed revisions to MD&A alter the allocation of liability among auditors, board members, registrants, and others, in the event of litigation over the accuracy or adequacy of the MD&A disclosed?
12. What are the costs and benefits of the accounting profession proposals? Are there other cost-effective alternatives?

²⁴ Copies of the two proposals will be placed in the public file to assist commentators.

²⁵ On February 14, 1987, the Auditing Standards Board issued an Exposure Draft of a Proposed Statement on Standards for Attestation Engagements entitled "Examination of Management's Discussion and Analysis." The Exposure Draft, if adopted, would establish performance and reporting guidance when an entity voluntarily engages an auditor to attest to representations in MD&A.

²⁶ 17 CFR 239.28.

By the Commission.

Jonathan G. Katz,

Secretary.

[FR Doc. 87-9280 Filed 4-23-87; 8:45 am]

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DEPARTMENT OF DEFENSE

Department of the Army

32 CFR Part 552

[FL Reg 210-7]

National Defense; Regulations Affecting Military Reservations; Controlling Access to Main Cantonment Area, Fort Lewis Military Reservation, Fort Lewis, WA; Prohibiting Certain Forms of Conduct Upon Fort Lewis Military Reservation

AGENCY: Department of the Army DoD.
ACTION: Notice of proposed rulemaking.

SUMMARY: The Department of the Army proposes adding subpart G to 32 CFR Part 552 to set forth additional regulations governing entry to and conduct upon the Fort Lewis Military Reservation, Fort Lewis, Washington. Fort Lewis has been declared a closed post, and it is intended that these regulations will give notice to the members of the public of the rules governing entry to the Main Cantonment Area of the Fort Lewis Military Reservation, Fort Lewis, Washington, and of certain conduct prohibited upon the Fort Lewis Military Reservation.

DATE: Comments must be received in writing on or before May 26, 1987.

ADDRESSES: Send written comments to: Office of the Staff Judge Advocate, I Corps and Fort Lewis, AFZH-JAA (ATTN: CPT McDaniel), Fort Lewis, WA 98433-5000. A copy of the proposed regulations, the appropriate map, and any written comments received will be available for public inspection during normal office hours in the Civil Law Division of the Office of the Staff Judge Advocate, I Corps and Fort Lewis, Room 10, Building 1033, Fort Lewis, Washington.

FOR FURTHER INFORMATION CONTACT: Captain John B. McDaniel, Civil Law Division, Office of the Staff Judge Advocate, I Corps and Fort Lewis, Fort Lewis, Washington 98433-5000; telephone (206) 967-6153.

SUPPLEMENTARY INFORMATION: Pursuant to the authority cited below, the Commanding General, Headquarters, I Corps and Fort Lewis, Fort Lewis, Washington, proposes adopting regulations in furtherance of the security

²³ Much of the information disclosed in the MD&A relates to matters that the auditor normally considers during the audit of the financial statements. For example, analytical review procedures and the auditor's review of contingent liabilities, changes in accounting principles, accounting estimates and the entity's status as a going concern may all provide information relevant to MD&A. Therefore, the auditor generally should be in a position to assess the accuracy and completeness of MD&A disclosures.