PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

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

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

* * * * *

§ 249.220f [Amended]

4. By amending Form 20–F (referenced in § 249.220f) by revising paragraph (c)(2)(iv) of Item 17 and adding Instruction (5) to Item 17, by revising paragraph (c)(2)(iv) of Item 18 and adding Instruction (4) of Item 18 to read as follows:

Note: The form 20–F does not and the amendments will not appear in the Code of Federal Regulations.

Form 20–F

* * * * *

Item 17. Financial Statements

* * * * *

(c) * * *

(2) * * *

(iv) (A) Issuers that prepare their financial statements on a basis of accounting other than U.S. generally accepted accounting principles in a reporting currency that comprehensively includes the effects of price level changes in its primary financial statements using the historical cost/constant currency or current cost approach, may omit the disclosures specified by paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) of this item relating to affects of price level changes. The financial statements should describe the basis of presentation, and that such effects have not been included in the reconciliation.

(B) Issuers that prepare their financial statements on a basis of accounting other than U.S. generally accepted accounting principles that translates amounts in financial statements stated in a currency of a hyperinflationary economy into the issuer's reporting currency in accordance with International Accounting Standards No. 21, "The Effects of Changes in Foreign Exchange Rates," as amended in 1993, using the historical cost/constant currency approach, may omit the disclosures specified by paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) of this Item relating to the effects of the different method of accounting for an entity in a hyperinflationary environment.

(C) If the method of accounting for an operation in a hyperinflationary economy complies with IAS 21, a statement to that effect must be included in the financial statements. The reconciliation shall state that such amounts presented comply with Item 17 of Form 20–F and are different from that required by U.S. GAAP.

* * * * *

Instructions

* * * * *

(5) For purposes of this Item, a hyperinflationary economy is one that has cumulative inflation of approximately 100% or more over the most recent three year period.

* * * * *

Item 18. Financial Statements

* * * * *

(c) * * *

(2) * * *

(iv) (A) Issuers that prepare their financial statements on a basis of accounting other than U.S. generally accepted accounting principles in a reporting currency that comprehensively includes the effects of price level changes in its primary financial statements using the historical cost/constant currency or current cost approach, may omit the disclosures specified by paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) of this item relating to effects of price level changes. The financial statements should describe the basis of presentation, and that such effects have not been included in the reconciliation.

(B) Issuers that prepare their financial statements on a basis of accounting other than U.S. generally accepted accounting principles that translates amounts in financial statements stated in a currency of a hyperinflationary economy into the issuer's reporting currency in accordance with International Accounting Standards No. 21, "The Effects of Changes in Foreign Exchange Rates," as amended in 1993, using the historical cost/constant currency approach, may omit the disclosures specified by paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) of this Item relating to the effects of the different method of accounting for an entity in a hyperinflationary environment.

(C) If the method of accounting for an operation in a hyperinflationary economy complies with IAS 21, a statement to that effect must be included in the financial statements. The reconciliation shall state that such amounts presented comply with Item 18 of Form 20–F and are different from that required by U.S. GAAP.

* * * * *

Instructions

* * * * *

(4) For purposes of this Item, a hyperinflationary economy is one that has cumulative inflation of approximately 100% or more over the most recent three year period.

* * * * *

By the Commission.

Dated: December 13, 1994

Margaret H. McFarland,

Deputy Secretary

[FR Doc. 94–31035 Filed 12–19–94, 8:45 am]

BILLING CODE 8010–01–P

17 CFR Parts 210, 229, and 249

[Release Nos. 33–7118; 34–35094; IC–20766; FR44; International Series No. 758; File No. S7–12–94]

RIN 3235–AG17

Financial Statements of Significant Foreign Equity Investees and Acquired Foreign Businesses of Domestic Issuers and Financial Schedules

AGENCY: Securities and Exchange Commission

ACTION: Final rules.

SUMMARY: The Commission is announcing the adoption of amendments to Regulation S–X, which governs the form and content of financial statements and schedules furnished by public companies in filings with the Commission, and Form 20–F, which is applicable to foreign private issuers. The amendments extend accommodations adopted recently with respect to financial statements of foreign issuers to filings by domestic issuers that are required to include financial statements of foreign equity investees or acquired foreign businesses. The accommodations relate to the age of financial statements and the reconciliation of financial statements to U.S. generally accepted accounting principles. In addition, the amendments revise the tests for determining whether financial statements of an equity investee must be provided, and they eliminate the requirement to furnish certain supplemental financial schedules.

EFFECTIVE DATES: December 20, 1994.

FOR FURTHER INFORMATION CONTACT: Wayne E. Carnall, (202) 942–2960, Deputy Chief Accountant, Division of Corporation Finance, Mail Stop 3–13, or, with respect to investment company matters, Jim Volk, (202) 942–0637, Office of Disclosure and Review, Division of Investment Management, U.S. Securities and Exchange Commission, Mail Stop 10–5, 450 Fifth Street, Washington, DC 20549.

SUPPLEMENTARY INFORMATION: The Commission is adopting amendments to the following rules and forms: Rules 1–02,[1] 3–05,[2] 3–09,[3] 3–12,[4] 4–08,[5] 5–02,[6]

[1] 17 CFR 210.1–02
[2] 17 CFR 210.3–05
[3] 17 CFR 210.3–09
[4] 17 CFR 210.3–12
[5] 17 CFR 210.4–08
[6] 17 CFR 210.5–02

5–04,[7] 6–07,[8] 6–10,[9] 7–05,[10] 9–07,[11] 12–01,[12] of Regulation S–X,[13] and Items 404 [14] and 601 [15] of Regulation S–K.[16] In addition, the Commission is amending Form 20–F [17] under the Securities Exchange Act of 1934 ("Exchange Act").[18]

I. Introduction

The Commission today is adopting several amendments that will extend financial statement accommodations available to foreign issuers to filings by domestic issuers that are required to include financial statements of foreign equity investees or acquired foreign business.[19] The accommodations relate to the age of financial statements [20] and the reconciliation of financial statements to U.S. generally accepted accounting principles ("GAAP") for those foreign entities.[21] In addition, the adopted amendments revise the tests of significance for determining whether financial statements of an equity investee must be provided. The amendments also eliminate certain supplemental financial schedules that were eliminated recently for foreign issuers,[22] as well as eliminate two additional schedules that foreign and domestic issuers have been required to include in annual reports and registration statements filed with the Commission.

The amendments adopted today were proposed by the Commission on April 19, 1994.[23] Comment letters received from registrants, accounting firms, and related professional membership associations generally supported the proposals and frequently commented that the schedules were generally redundant to information already required in the financial statements and that the costs of preparing the schedules therefore outweighed the benefit. Comments by financial analysts were critical of the proposed amendments, expressing a general concern about a perceived relaxation of disclosure requirements.[24] The Commission believes concerns regarding the revised requirements do not consider fully the offsetting effects of other disclosure requirements that must be met by reporting companies. The amendments are being adopted substantially as proposed because the Commission believes they will result in reduced costs of registration and reporting by public companies without loss of material basic disclosure for the protection of investors.

II. Financial Statements of Significant Business Acquisitions and Equity Investees

The changes to Regulation S–X and Form 20–F adopted today revise the tests of significance which determine whether financial statements of an equity investee must be provided, and modify the requirements for reconciliation to U.S. GAAP of the financial statements of the significant foreign business acquisitions and foreign investees of domestic registrants.

A. Tests of Significance of Equity Investees

Separate audited financial statements of a company accounted for by the registrants using the equity method of accounting (an "equity investee") must be provided if the investee is "significant" as measured pursuant to Rule 3–09 of Regulation S–X. The amendments adopted today eliminate one of the three tests of significance made pursuant to that rule. Pursuant to the adopted rule, significance of an investee is measured by comparison of the registrant's proportionate share of the investee's pretax income to that of the registrant and of the registrant's investment in the investee to the registrant's total assets. The determination of significance will no longer require comparison of the investee's total assets to the total assets of the registrant.

While generally favored by commenters, several financial analysts observed that the two tests retained under the adopted rule may lead to the omission of financial statements of highly leveraged investees because the registrant's investment and proportion of earnings will be minimized as a result of the investee's debt. However, exclusion of separate audited financial statements appears reasonable given that the unfavorable financial impact of the investee is generally limited to the registrant's investment in that entity; losses in excess of that investment generally are not recognized under GAAP. To the extent that a registrant has guaranteed an investee's debt or is otherwise committed to fund its operations, the registrant must continue to recognize losses of the investee,[25] and such losses would continue to be considered in one prong of the two-pronged test for significance. If there are other material consequences of a registrant's investment in a highly leveraged investee, the Commission believes discussion of these will be elicited by Item 303 of Regulation S–K, "Management's Discussion and Analysis."[26] In addition, summarized financial information, pursuant to Rule 4–08(g) of Regulation S–X,[27] that would be required to be provided in a note to the financial statements if the significance of the investees individually or in aggregate exceeds the 10% level under any of the three tests, would generally provide sufficient information in these or similar circumstances.

B. Reconciliation of Financial Statements of Significant Foreign Equity Investees and Foreign Acquirees

The amendments adopted today permit domestic issuers to furnish financial statements of significant foreign business acquisitions and foreign equity investees on substantially the same basis as may foreign private issuers. That is, the financial statements of foreign acquirees, furnished pursuant to Rule 3–05 of Regulation S–X as amended,[28] or investees, furnished pursuant to Rule 3–09 of Regulation S–X as amended, in periodic reports or registrations statements of domestic issuers need only comply with Item 17 of Form 20–F. Although some commenters questioned whether the cost of compliance with existing requirements justified the accommodation, most commenters cited the significant compliance costs incurred under the prior rule and strongly favored the proposal.

Pursuant to Item 17, the financial statements may be prepared on a comprehensive basis other than U.S. GAAP. Quantitative reconciliation of

---

[7] 17 CFR 210.5–04.
[8] 17 CFR 210.6–07.
[9] 17 CFR 210.6–10.
[10] 17 CFR 210.7–05.
[11] 17 CFR 210.9–07.
[12] 17 CFR 210.12–01.
[13] 17 CFR Part 210.
[14] 17 CFR 229.404.
[15] 17 CFR 229.601.
[16] 17 CFR 229.
[17] 17 CFR 249.220f.
[18] 15 U.S.C. 78a *et seq.*
[19] The amendments regarding acquired foreign businesses adopted today would also apply to issuers that file under Regulation S–B.
[20] *See* Securities Act Release No. 7026 (November 3, 1993) (58 FR 60304) regarding the age of financial statements for foreign private issuers.
[21] *See* Securities Act Release No. 7053 (April 19 1994) (59 FR 21644) regarding the modification of the reconciliation requirements for foreign equity investees and foreign acquired businesses.
[22] Id.
[23] *See* Securities Act Release No. 7055 (April 19 1994) (59 FR 21814) (the "Proposing Release").
[24] Forty-one comment letters on the Proposing Release were received. Those letters and a summary of comments are available for public inspection and copying in File No. S7–12–94 at the Commission's Public Reference Room in Washington, DC.
[25] Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."
[26] 17 CFR 229.303.
[27] 17 CFR 210.4–08(g).
[28] 17 CFR 210.3–05.

net income and material balance sheet items is required, but the additional information specified by U.S. GAAP for disclosure in notes to financial statements is not necessary. However, no reconciliation is required at all if the foreign business does not exceed the 30% level under the tests of significance which call for the inclusion of its financial statements of a significant business acquisition [29] or significant investee.[30]

The adopted rules are applicable to a foreign business, as defined. Several commenters recommended that the definition be identical to the definition of a foreign private issuer, but it is adopted as proposed.[31] The adopted definition of a foreign business varies from the definition of a foreign private issuer because the relief available under the rule is intended to be applicable to a branch or other component of an entity, rather than only to a legally recognized business entity. Also, the rule is not intended to be applicable to a business that is incorporated outside the U.S. but that is, prior to the registrant's investment, majority owned by one or more U.S. shareholders, because such an entity can be expected to maintain its books and records on a basis permitting reconciliation to U.S. GAAP without unreasonable cost.[32]

C. Age of Financial Statements of Significant Foreign Equity Investees or Foreign Acquirees

Under the amendments adopted today, the financial statements of significant foreign equity investees and acquired foreign businesses furnished in filings by domestic issuers can be updated on the same time schedule as foreign private issuers.[33] Registration statements of foreign private issuers need not include audited financial statements of the most recently completed fiscal year until six months after the year-end; unaudited interim financial statements are required only to the extent necessary to bring the most recent financial statements included in the filing to a date within ten months of effectiveness.[34]

Although two commenters doubted that there was significant additional cost or difficulty associated with updating foreign investees and acquiree financial statements on the same basis as domestic issuers, most commenters felt that financial reporting practices outside the U.S. varied to such a degree as to present significant obstacles to the preparation of separate financial statements on as timely a basis as is required for U.S. companies.

III. Streamlining of Required Financial Statement Schedules

The amendments adopted today eliminate the following six schedules that had previously been eliminated for foreign private issuers:

(1) Rule 12–02—Marketable Securities—Other Investments including Schedule XIII

(2) Rule 12–03—Amounts Receivable from Related Parties and Underwriters, Promoters and Employees Other Than Related Parties

(3) Rule 12–05—Indebtedness of and to Related Parties—Not Current.

(4) Rule 12–06—Property, Plant and Equipment

(5) Rule 12–07—Accumulated Depreciation, Depletion and Amortization of Property, Plant and Equipment

(6) Rule 12–08—Guarantees of Securities of Other Issuers

Two additional schedules previously required for both foreign and domestic issuers also will be eliminated:

(1) Rule 12–10—Short-term Borrowings

(2) Rule 12–11—Supplementary Income Statement Information

A. Schedules Previously Eliminated From Foreign Issuer Filings

1. Marketable Securities—Other Investments

The rules adopted today eliminate this schedule. All of the issuers and accountants supported elimination of this schedule, but several financial analyst commenters did not favor elimination because they believed that the schedule provided information facilitating comparisons among companies whose accounting is affected by the classification of investments as either current or noncurrent.

Elimination of this schedule was proposed because much of its information is required to be disclosed in financial statements by *Statement of Financial Accounting Standards No. 115*, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"), issued in May 1993 by the Financial Accounting Standards Board ("FASB") and effective for fiscal years beginning after December 15, 1993. Under SFAS 115, the designation as current or noncurrent no longer affects the carrying value of a security.

Some commenters favored retention of the schedule's requirement for identification of securities of individual issuers exceeding 2% of the registrant's total assets. The Commission believes retention of the specific disclosure is unnecessary because other rules applicable to filings by public companies should lead to appropriate disclosure if a particular investment is material. Disclosures required by Item 303 of Regulation S–K, "Management's Discussion and Analysis," include discussion of the material effects and uncertainties associated with concentrations and risks in the investment portfolio.[35] In addition, *Statement of Financial Accounting Standards No. 105*, "Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk," ("SFAS 105") requires disclosure of all significant concentrations of credit risk arising from an individual counterparty or groups of counterparties that would be similarly affected by changes in economic or other conditions.

2. Amounts Receivable From Related Parties and Underwriters, Promoters and Employees Other Than Related Parties and Indebtedness of and to Related Parties

The Commission has eliminated these schedules as proposed. None of the commenters cited the need to retain these schedules, as similar information is required to be furnished pursuant to *Statement of Financial Accounting Standards No. 57*, "Related Party

[29] Consistent with the recently adopted amendments for foreign private issuers (*See* Securities Act Release No. 7053 (April 19, 1994)), reconciliation to U.S. GAAP would continue to be required for pro forma financial information depicting the effects of a registrant's acquisition of a foreign business.

[30] In circumstances where a registrant furnishes separate financial statements of an equity investee pursuant to Rule 3–09 of Regulation S–X, the staff has not required the registrant to also furnish summarized financial data of the investee pursuant to Rule 4–08(g) of Regulation S–X. (*See* Staff Accounting Bulletin No. 44, Topic 6:K (March 3, 1983) (47 FR 10789). However, consistent with the recently adopted amendments for foreign private issuers (*See* Securities Act Release No. 7053 (April 19, 1994)), a domestic registrant that furnishes separate financial statements of a foreign investee that are not reconciled pursuant to the proposed rule should furnish the summarized financial data pursuant to Rule 4–08(g) in accordance with U.S. GAAP in its primary financial statements.

[31] If the acquired business or investee does not meet the definition of a foreign business, the issuer can file financial statements prepared in accordance with a basis of accounting other than US GAAP provided a reconciliation to US GAAP under Item 18 of Form 20–F is included regardless of the level of materiality. This is consistent with current staff practice.

[32] Ownership is measured prior to the acquisition of the business.

[33] If the acquired business or investee does not meet the definition of a foreign business, financial statements would need to be updated pursuant to Rule 3–12 of Regulation S–X.

[34] 17 CFR 210.3–19.

[35] *See* Securities Act Release No. 6835 (May 18, 1989).

Transactions" ("SFAS 57") and Regulation S–K, Item 404 "Certain Relationships and Related Transactions."

3. Property, Plant, and Equipment, and Accumulated Depreciation, Depletion, and Amortization

Although comments from financial analysts were generally opposed to elimination of these schedules, most commenters supported the proposal, citing the cost of their preparation and audit, and their limited usefulness. Financial analysts reported that they sometimes use the schedules to estimate the age, relative age, and average depreciable life of each class of a company's depreciable assets. Other commenters agreed with observations in the proposing release that estimates based on the schedules would not be reliable if the issuer has significant foreign operations (due to the effects of currency translation on depreciation expense), or if a depreciation method other than straight line is used. The Commission believes that adequate quantitative disclosure regarding property, plant and equipment is elicited by *Accounting Principle Board Opinion No. 12*, ("Omnibus Opinion—1967"), which requires disclosure of total depreciation expense for each period and the balances of major classes of depreciable assets. Where the age of capital assets may be indicative of increasing maintenance and replacement budgets, the registrant would be expected to disclose the material reasonably likely effects on operating trends, capital expenditures and liquidity pursuant to Item 303 of Regulation S–K.

4. Guarantees of Securities of Other Issuers

The Commission has eliminated these schedules as proposed. None of the commenters cited the need to retain this schedule, as similar information is required to be disclosed by *Statement of Financial Accounting Standards No. 5*, "Accounting for Contingencies," ("SFAS 5").

B. Additional Schedules Eliminated for Both Foreign and Domestic Issuers

1. Short Term Borrowings

The adopted amendments eliminate this schedule. However, as proposed, weighted average interest rate on borrowings outstanding as of each of the dates for which balance sheets are presented will be required to be disclosed in a note to the financial statements. In addition, for investment companies, although the schedule requirement has been eliminated, the information formerly required by § 210.12–10 will now be required to be provided in the body of the financial statements or in the footnotes. While two of the financial analysts indicated that the year end rates may not be indicative of the average rate during the period, they did not address the computational problems arising from foreign currency translation and other factors, as discussed in the proposing release. A number of other commenters cited those computational problems and indicated that the information disclosed in the schedule frequently was not meaningful. The Commission concluded that the costs of furnishing the information outweighs its usefulness.

2. Supplementary Income Statement Information

The Commission has eliminated this schedule by today's amendments. While the amounts of the items formerly referenced by this schedule (maintenance and repairs; depreciation and amortization of the cost of intangible assets, preoperating costs and similar deferred costs; taxes other than payroll; royalties; and advertising costs) need not be disclosed on an ongoing basis by registrants, discussion of discretionary expenses and other items in the schedule, quantified to the extent practicable, will be required in the company's Management's Discussion and Analysis where necessary to explain material trends and uncertainties that affected operating results, liquidity or financial condition of the registrant, or that may be reasonably likely to affect future results, liquidity or financial condition.[36]

IV. Cost-Benefit Analysis

Several registrants provided quantified estimates of the cost reductions which would vary from registrant to registrant. All of the registrants and accounting firms that addressed the cost-benefit of the amendments indicated that the cost of preparation and audit of the schedules and other information that have been eliminated today exceeded their benefit. Several financial analysts indicated that they thought that the actual costs of providing this information is small, and that the benefits exceeded such costs. They suggested that the reduced disclosures could lead to an increase in the costs of capital due to an increase in investor uncertainty.

For reasons discussed above, the Commission believes that the adoption of these rules will reduce the regulatory burden and costs of the vast majority of the registrants without a loss of information that is necessary for investor protection.

[36] See Financial Reporting Release 36.

V. Availability of Final Regulatory Flexibility Analysis

A Final Regulatory Flexibility Analysis in accordance with the Regulatory Flexibility Act has been prepared with respect to the final amendments. A summary of a corresponding Initial Regulatory Flexibility Analysis was included in the Proposing Release. Members of the public who wish to obtain a copy of the Final Regulatory Flexibility Analysis should contact Wayne E. Carnall, Deputy Chief Accountant, Division of Corporation Finance, Securities and Exchange Commission, Mail Stop 3–13, 450 5th Street, N.W., Washington, D.C. 20549, (202) 942–2960.

VI. Statutory Basis for Rules

The Commission's rules and forms are amended pursuant to section 19 of the Securities Act of 1933 and sections 3(b), 4A, 12, 13, 14, 15, 16, and 23 of the Securities Exchange Act of 1934.

VII. Effective Date

The final rule and amendments to the Commission's rules and forms shall be effective immediately upon publication in the **Federal Register**, in accordance with the Administrative Procedure Act, which allows effectiveness in less than 30 days after publications for, *inter alia*, "a substantive rule which grants or recognizes an exemption or relieves a restriction." 5 U.S.C. 553(d)(1).

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

Accounting, Reporting and recordkeeping requirements, Securities.

Text of Amendments

In accordance with the foregoing, Title 17, Chapter II of the Code of Federal Regulations is amended 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 is continued to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77aa(25), 77aa(26), 78*l*, 78m, 78n, 78o(d), 78w(a), 78*ll*(d), 79e(b), 79j(a), 79n, 79t(a),

80a–8, 80a–20, 80a–29, 80a–30, 80a–37a, unless otherwise noted.

2. By amending § 210.1–02 by redesignating paragraphs (l) through (aa) as paragraphs (m) through (bb), and adding paragraph (l) to read as follows:

§ 210.1–02 Definitions of terms used in Regulations S–X (17 CFR 210).

(l) *Foreign business.* A business that is majority owned by persons who are not citizens or residents of the United States and is not organized under the laws of the United States or any state thereof, and either:

(1) More than 50 percent of its assets are located outside the United States; or

(2) The majority of its executive officers and directors are not United States citizens or residents

* * * * *

3. By amending § 210.3–05 by revising the last sentence of the introductory text of paragraph (b)(1) and adding paragraph (c) to read as follows:

§ 210.3–05 Financial statements of businesses as acquired or to be acquired.

* * * * *

(b) *Periods to be presented.*

(1) * * * The periods for which such financial statements are to be filed shall be determined using the conditions specified in the definition of significant subsidiary in § 210.1–02(w) as follows:

* * * * *

(c) *Financial statements of foreign business.* If the business acquired or to be acquired is a foreign business, financial statements of the business meeting the requirements of Item 17 of Form 20–F (§ 249.220f of this chapter) will satisfy this section.

4. By amending § 210.3–09 by revising the last sentence of paragraph (a), revising the last two sentences of paragraph (b) and adding paragraph (d) to read as follows:

§ 210.3–09 Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons.

(a) * * * Similarly, if either the first or third condition set forth in § 210.1–02(w), substituting 20 percent for 10 percent, is met by a 50 percent or less owned person accounted for by the equity method either by the registrant or a subsidiary of the registrant, separate financial statements of such 50 percent or less owned person shall be filed.

(b) * * * However, these separate financial statements are required to be audited only for those fiscal years in which either the first or third condition set forth in § 210.1–02(w), substituting 20 percent for 10 percent, is met. For purposes of a filing on Form 10–K (§ 249.310 of this chapter), if the fiscal year of any 50 percent or less owned person ends within 90 days before the date of the filing, or if the fiscal year ends after the date of the filing, the required financial statements may be filed as an amendment to the report within 90 days, or within six months if the 50 percent or less owned person is a foreign business, after the end of such subsidiary's or person's fiscal year.

(c) * * *

(d) If the 50 percent or less owned person is a foreign business, financial statements of the business meeting the requirements of Item 17 of Form 20–F (§ 249.220f of this chapter) will satisfy this section.

5. By amending § 210.3–12 by adding a second sentence to paragraph (f) to read as follows:

§ 210.3–12 Age of financial statements at effective date of registration statement or at mailing date of proxy statement.

* * * * *

(f) * * * Financial statements of a foreign business which are furnished pursuant to §§ 210.3–05 or 210.3–09 because it is an acquired business or a 50 percent or less owned person may be of the age specified in § 210.3–19.

6. By amending § 210.4–08 by revising paragraph (g) to read as follows:

§ 210.4–08 General notes to financial statements.

* * * * *

(g) *Summarized financial information of subsidiaries not consolidated and 50 percent or less owned persons.* (1) The summarized information as to assets, liabilities and results of operations as detailed in § 210.1–02(bb) shall be presented in notes to the financial statements on an individual or group basis for:

(i) Subsidiaries not consolidated; or

(ii) For 50 percent or less owned persons accounted for by the equity method by the registrant or by a subsidiary of the registrant, if the criteria in § 210.1–02(w) for a significant subsidiary are met:

(A) Individually by any subsidiary not consolidated or any 50% or less owned person; or

(B) On an aggregated basis by any combination of such subsidiaries and persons.

(2) Summarized financial information shall be presented insofar as is practicable as of the same dates and for the same periods as the audited consolidated financial statements provided and shall include the disclosures prescribed by § 210.1–02(bb). Summarized information of subsidiaries not consolidated shall not be combined for disclosure purposes with the summarized information of 50 percent or less owned persons.

* * * * *

7. By amending § 210.5–02 by adding a sentence following the first sentence to paragraph 19.(b) to read as follows:

§ 210.5–02 Balance sheets.

* * * * *

19. Accounts and notes payable * * *

(b) * * * The weighted average interest rate on short term borrowings outstanding as of the date of each balance sheet presented shall be furnished in a note. * * *

* * * * *

8. By amending § 210.5–04: Revise paragraph (a); remove Schedule I, Schedule II, Schedule IV, Schedule V, Schedule VI, Schedule VII, Schedule IX, Schedule X, and Schedule XIII of paragraph (c) and redesignate the remaining schedules in paragraph (c) to read as follows: Schedule III as Schedule I, Schedule VIII as Schedule II, Schedule XI as Schedule III, Schedule XII as Schedule IV, and Schedule XIV as Schedule V.

§ 219.5–04 What Schedules are to be filed.

(a) Except as expressly provided otherwise in the applicable form:

(1) The schedules specified below in this Section as Schedules II and III shall be filed as of the date of the most recent audited balanced sheet for each person or group.

(2) Schedule II shall be filed for each period for which an audited income statement is required to be filed for each person or group.

(3) Schedules I and IV shall be filed as of the date and for periods specified in the schedule.

* * * * *

9. By amending § 210.6–07 by adding the following sentence to paragraph 3. to read as follows:

§ 210.6–07 Statements of operations.

* * * * *

3. *Interest and amortization of debt discount and expense.* Provide in the body of the statements or in the footnotes, the average dollar amount of borrowings and the average interest rate.

§ 210.6–10 [Amended]

10. By amending § 210.6–10 by: Removing Schedule IV and Schedule VII from paragraph (c) and redesignating the remaining schedules in paragraph (c) as follows: Schedule V as Schedule IV and Schedule VI as Schedule V; remove Schedule VI, Schedule VII, Schedule VIII, Schedule IX, and Schedule X in paragraph (e)(2) and redesignate Schedule XI as Schedule VI and Schedule XII as Schedule VII.

11. By amending § 210.7–05 by: Revising paragraph (a), removing Schedule II, Schedule IV, Schedule VII, and Schedule IX of paragraph (c) and redesignating the remaining schedules in paragraph (c) as follows: Schedule III as Schedule II, Schedule V as Schedule III, Schedule VI as Schedule IV, Schedule VIII as Schedule V, and Schedule X as Schedule VI.

§ 210.7–05 What Schedules are to be filed.

(a) Except as expressly provided otherwise in the applicable form:

(1) The schedule specified below in this section as Schedules I shall be as of the date of the most recent audited balance sheet for each person or group.

(2) The schedules specified below in this section as Schedule IV and V shall be filed for each period for which an audited income statement is required to be filed for each person or group.

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

* * * * *

§ 210.9–07 [Removed and Reserved]

12. By removing and reserving § 210.9–07.

13. By revising § 210.12–01 to read as follows:

§ 210.12–01 Application of §§ 210.12–01 to 210.12–29.

These sections prescribe the form and content of the schedules required by §§ 210.5–04, 210.6–10, 210.6A–05, and 210.7–05.

§§ 210.12–02, 210.12–03, 210.12–05, 210.12–06, 210.12–07, 210.12–08, 210.12–10, and 210.12–11 [Removed and Reserved]

14. By removing and reserving §§ 210.12–02, 210.12–03, 210.12–05, 210.12–06, 210.12–07, 210.12–08, 210.12–10, and 210.12–11.

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

15. 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, 77aa(25), 77aa(26), 77ddd, 77eee, 77ggg, 77hhh, 77iii, 77jjj, 77nnn, 77sss, 78c, 78i, 78j, 78*l*, 78n, 78n, 78*o*, 78w, 78*ll*(d), 79e, 79n, 79t, 80a–8, 80a–29, 80a–30, 80a–37, 80b–11, unless otherwise noted.

* * * * *

16. By revising instructions 2.C and 3 C of the Instructions to Paragraph (b) of § 229.404 to read as follows:

§ 229.404 (Item 404) Certain relationships and related transactions.

Instructions to Paragraph (b) of Item 404

* * * * *

2. * * *

C. Payments made or received by subsidiaries other than significant subsidiaries as defined in Rule 1–02(w) of Regulation S–X [§ 210.1–02(w) of this chapter], provided that all such subsidiaries making or receiving payments, when considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as defined in Rule 1–02(w).

3. * * *

C. Indebtedness incurred by subsidiaries other than significant subsidiaries as defined in Rule 1–02(w) of Regulation S–X [§ 210.1–02(w) of this chapter], provided that all such subsidiaries incurring indebtedness, when considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as defined in Rule 1–02(w).

* * * * *

17. By revising the second sentence in paragraph (b)(21)(ii) of § 229.601 to read as follows:

§ 229.601 (Item 601) Exhibits.

* * * * *

(b) * * *

(21) *Subsidiaries of the registrant.*

(i) * * *

(ii) * * * (See the definition of "significant subsidiary" in Rule 1–02(w) (17 CFR 210.1–02(w)) of Regulation S–X.) * * *

* * * * *

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

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

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

* * * * *

§ 249.220f [Amended]

19. amending Form 20–F (referenced in § 249.220f) by revising paragraph (a) to Item 17 and paragraph (a) to item 18 to read as follows:

Note: The text of Form 20–F is not and the amendments will not appear in the Code of Federal Regulations.

Form 20–F

* * * * *

Item 17. Financial Statements

(a) The registrant shall furnish financial statements for the same fiscal years and accountants' certificates that would be required to be furnished if the registration statement were on Form 10 or the annual report on Form 10–K. Schedules designated by §§ 210.12–04, 210.12–09, 210.12–15, 210.12–16, 210.12–17, 210.12–18, 210.12–28, and 210.12–29 of this chapter shall be furnished if applicable to the registrant.

* * * * *

Item 18. Financial Statements

(a) The registrant shall furnish financial statements for the same fiscal years and accountants' certificates that would be required to be furnished if the registration statement were on Form 10 or the annual report on Form 10–K. Schedules designated by §§ 210.12–04, 210.12–09, 210.12–15, 210.12–16, 210.12–17, 210.12–18, 210.12–28, and 210.12–29 of this chapter shall be furnished if applicable to the registrant.

* * * * *

By the Commission.

Dated: December 13, 1994.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 94–31036 Filed 12–19–94; 8:45 am]

BILLING CODE 8010–01–P

---

17 CFR Part 249

[Release Nos. 33–7119; 34–35095; FR 45; International Series Release No. 759; File No. S7–13–94]

RIN 3235–AG16

Reconciliation of the Accounting by Foreign Private Issuers for Business Combinations

AGENCY: Securities and Exchange Commission.

ACTION: Final rules.

SUMMARY: The Commission is announcing the adoption of amendments to Form 20–F to streamline the financial statement reconciliation requirements for foreign private issuers that have entered into business combinations. The amendments eliminate the requirement to reconcile to U.S. generally accepted accounting principles certain differences attributable to the method of accounting for a business combination or the amortization period of goodwill and negative goodwill, provided the financial statements comply with *International Accounting Standard No. 22*, "Business Combinations," as amended, regarding those items.

EFFECTIVE DATE: December 20, 1994.

FOR FURTHER INFORMATION CONTACT: Wayne E. Carnall, Deputy Chief Accountant, Division of Corporation Finance at (202) 942–2960 U.S. Securities and Exchange Commission, Mail Stop 3–13, 450 Fifth Street NW., Washington, DC 20549.

SUPPLEMENTARY INFORMATION: The Commission is adopting amendments to

Form 20–F [1] under the Securities Exchange Act of 1934 (the "Exchange Act").[2]

I. Introduction

The Commission is adopting amendments to streamline the financial statement reconciliation requirements for foreign private issuers that have entered into business combinations. The amendments eliminate the requirement to reconcile to U.S. generally accepted accounting principles ("GAAP") certain differences attributable to the method of accounting for a business combination or the amortization period of goodwill and negative goodwill, provided the financial statements comply with *International Accounting Standard No. 22*, "Business Combinations," as amended ("IAS 22"), regarding those items.

The amendments adopted today were proposed by the Commission on April 19, 1994.[3] Comments received on the proposing release were divided almost evenly in their views.[4] Commenters questioning the proposal expressed concern about the lack of comparability to U.S. GAAP that would result from adoption of the proposal, and observed that the reconciled balance sheet and net income information furnished under the proposed rule would be a hybrid of U.S. GAAP and International Accounting Standards ("IAS"). Those supporting the proposal cited the cost and complexity of reconciling the pervasive differences attributable to an issuer's method of accounting for business combinations and, in the case of a supporting letter from financial analysts, the lack of comparability which exists presently under the U.S. accounting rules applicable to business combinations.

The Commission believes that acceptance of the guidance in IAS 22 with respect to the particular matters addressed by the amendment, without reconciliation to U.S. GAAP, will not result in the loss of material information that is necessary for a U.S. investor to make an informed investment decision. Accordingly, the amendments are being adopted substantially as proposed, although certain modifications and clarifications are included in response to recommendations and other comments received.

[1] 17 CFR 249.220f.

[2] 15 U.S.C. 78a *et seq.*

[3] See Securities Act Release No. 7056 (April 19, 1994) (59 FR 21821) (the "Proposing Release").

[4] Nine comment letters on the proposal were received. Those letters and a summary of the comments are available for public inspection and copying in File No. S7–13–94 at the Commission's Public Reference Room in Washington, DC.

II. Method of Accounting for Business Combinations

As adopted, the amendments eliminate the requirement that foreign private issuers quantify the effects of differences arising solely from the different criteria applied to the selection of the basic method of accounting for a business combination if the criteria used in the primary financial statements for determining the method are consistently applied and are consistent with IAS 22. The two basic methods of accounting can be summarized as either "pooling of interests" or "purchase" as determined under U.S. GAAP primarily pursuant to *Accounting Principles Board Opinion No. 16*, "Accounting for Business Combinations" ("APB 16"), or "uniting of interests" and "acquisition" under IAS 22.

APB 16 and IAS 22 have a similar conceptual framework underlying the particular conditions they establish for determining which of the two basic accounting methods should be applied to a business combination. Both standards acknowledge limited circumstances under which remeasurement of an acquired company's assets and liabilities pursuant to the purchase or acquisition method is not appropriate, but the particular criteria qualifying a transaction for pooling of interests (under APB 16) and uniting of interests (under IAS 22) are different, with IAS 22 being generally more restrictive.

The Commission believes that the criteria articulated in IAS 22 are sufficiently clear so that companies and their auditors can be expected to apply the guidance in a consistent manner to similar transactions. Although different from the criteria in U.S. GAAP, the criteria in IAS No. 22 provide a rational and effective basis for distinguishing the substantively unique transactions for which the special accounting treatment is appropriate. The criteria in IAS No. 22 appear sufficiently rigorous to restrict the use of uniting of interests accounting to a relatively small class of similar transactions. The Commission believes that financial statements of foreign private issuers that distinguish business combinations on the basis specified by IAS No. 22 will provide information that is sufficiently informative and useful to investors without a reconciliation of that departure to U.S. GAAP.

In evaluating the concerns expressed about the effects on comparability of the proposed use of IAS 22, the level of comparability under current U.S. accounting principles needs to be examined. Although the two accounting methods of "purchase" and "pooling" prescribed by U.S. GAAP produce very significant financial reporting differences, many transactions that are accounted for in the U.S. as poolings of interests are difficult to distinguish economically or structurally from transactions accounted for as purchases Because the criteria qualifying a transaction for pooling under U.S. GAAP are restrictive, a registrant is rarely if ever compelled to account for a transaction as a pooling if it does not want to do so. The registrant may elect to avoid pooling accounting through essentially nonsubstantive modifications of merger terms or other insignificant actions. Under IAS 22, it is even more difficult to qualify a business combination as a uniting of interests, or pooling. Many transactions that would quality for pooling under U.S. GAAP would be accounted for as purchases under IAS 22. As under the U.S. rule, issuers could elect to avoid pooling accounting by the essentially subjective designation of an acquirer. On balance, it would appear that using the provisions of IAS 22 to determine whether a combination is accounted for as a purchase or pooling will not materially affect the comparability of financial statements.

A substantial degree of comparability will be retained under the rules adopted today because they provide that the effects of differences in amounts determined upon application of either the purchase or pooling methods of accounting would continue to be quantified. For example, if the acquisition method is applicable to a business combination under IAS 22, differences between the amounts assigned in the issuer's primary financial statements to tangible and intangible assets and liabilities and those amounts as would be determined using the purchase method applied in accordance with U.S. GAAP must be identified and quantified in the reconciliation. If a determination has been made pursuant to the criteria in IAS 22 that the uniting of interest method is appropriate, then differences between the accounting used in the primary financial statements and the accounting that would be required for a pooling of interests under U.S. GAAP must be included in the reconciliation to U.S. GAAP. In response to comments, language in the amendment has been modified to more clearly describe the continuing requirement to reconcile the amounts that would be reported under U.S. GAAP for the particular method of accounting that was determined to be

applicable using the criteria contained in IAS 22.

As suggested by many commenters, the new provisions will not be available with respect to business combinations that are promoter transactions, leveraged buyouts, mergers of entities under common control, or reverse acquisitions. The final rule indicates that those types of transactions would continue to be required to be reconciled in full to U.S. GAAP. The rule also states that other business combinations that are not addressed by IAS 22 are not eligible for relief from reconciliation.

III. Accounting for Goodwill and Negative Goodwill

The amendments also eliminate the requirement that foreign private issuers quantify the effects of differences arising from the period of amortization of both goodwill and negative goodwill, as proposed. Under IAS 22, goodwill and negative goodwill is amortized over a period not exceeding five years unless a longer period, not exceeding twenty years, can be justified. *Accounting Principles Board Opinion No. 17*, "Accounting for Intangibles" (AFB 17"), requires the amortization of goodwill or negative goodwill over its useful life, except that the period cannot exceed forty years.

Some commenters raised concerns about the proposed rule because the resulting amount would not be comparable to U.S. GAAP. However, if the primary financial statements reflect an amortization period that complies with IAS 22, a reconciliation of differences in goodwill amortization periods does not necessarily improve the comparability of financial statements in a material fashion. U.S. companies presently exercise substantial judgment in selecting an amortization period for goodwill, and significant differences among similarly situated companies can be seen among companies reporting to the Commission. The accounting differences between IAS 22 and APB 17 are not so opaque as to result in the loss of material information to investors. If the useful life of goodwill or amortization period of negative goodwill exceeds five years, justification of the longer period is required by paragraph 72 of IAS 22 to be furnished in a note to the primary financial statements. Registrants will continue to be required under both Item 17 and 18 of Form 20–F to describe the accounting differences, even where relief from quantification of differences is granted by this rule.

The relief from reconciliation permitted under the adopted rule is applicable only to differences in the amortization period as it applies to aggregate amount of goodwill or negative goodwill that would be determined under U.S. GAAP. For example, negative goodwill under IAS 22 (the amount by which the fair value of acquired net assets exceeds the purchase price) must be reconciled to negative goodwill determined under U.S. GAAP (the amount remaining after the excess over the purchase price has been applied to reduce the carrying value of non-monetary noncurrent assets). In response to commenter's suggestion, Items 17 and 18 of Form 20–F have been modified to clarify that point.

IV. Implementation and Transition

Issuers will be permitted by the adopted rule to elect to apply the provisions of IAS 22 in the determination of the method of accounting for business combinations but not adopt its provisions for amortization of goodwill and negative goodwill. Similarly, issuers could adopt the provisions of IAS 22 with respect to goodwill amortization periods, but need not adopt that standard with respect to any other aspect of accounting for business combinations.

Transition guidance in the 1993 amendment of IAS 22 calls for its new provisions to be implemented in financial statements for periods beginning on or after January 1, 1995, with retroactive application encouraged but not required. As originally proposed, the relief from reconciliation afforded by the rule would be available only to an issuer that implemented IAS 22, as amended, in its financial statements with respect to all current and prior business combinations for all financial reporting periods presented. At the suggestion of a commenter and in consideration of the difficulty of retroactive implementation of IAS 22, the rule as adopted would also provide relief from reconciliation for business combinations consummated on or after January 1, 1995, if, commencing by that date, the issuer accounts for all business combinations in its primary financial statements in accordance with IAS 22. For an issuer that does not retroactively implement IAS 22, full reconciliation to U.S. GAAP would be required with respect to business combinations consummated prior to January 1, 1995.

As requested by several commenters, the adopted rules clarify how issuers and their auditors should describe the balance sheet and income statement amounts which do not reflect full reconciliation to U.S. GAAP. Amounts reported in the reconciliation should be referred to as determined in accordance with U.S. GAAP except for the specific items for which there is a deviation; exceptions should be stated to be in accordance with Item 17 or 18 of Form 20–F, as applicable, and different than that required by U.S. GAAP.[5]

The reconciliation provided pursuant to Item 17 or 18 of Form 20–F must be included in notes to the financial statements and, accordingly, must be considered by the auditor when expressing an opinion on the financial statements taken as a whole. The auditor's report is required to comply with Rule 2–02 of Regulation S–X, and need not refer specifically to the note containing the reconciliation. However, if the reconciliation furnished in the notes to the financial statements fails to include disclosure of all material departures from U.S. GAAP or the quantification of the effects of accounting differences is materially misstated, or, where applicable, is incorrectly stated to be determined pursuant to the special provisions afforded under Item 17 or 18 by the rules adopted today, the financial statements would be presumed to be materially misleading and an exception should be cited in the auditor's report.

V. Cost-Benefit Analysis

No specific data were provided in response to the Commission's request regarding the costs and benefits of the amendment being adopted today. Several commenters noted that the proposal would address to a large extent the time and cost of additional recordkeeping and reporting resulting from having to reconcile different accounting methods for business combinations. The Commission believes costs will be reduced by this amendment. The Commission believes that the adoption of these rules will be beneficial to U.S. investors, as it will encourage more foreign companies to list their securities and raise capital in the United States and will be consistent with investor protection.

VI. Regulatory Flexibility Act Certification

Pursuant to the Regulatory Flexibility Act (5 Act U.S.C. 605(b)), the Chairman of the Commission has certified that the proposed amendments will not have a significant impact on a substantial number of small entities. Members of the public who wish to obtain a copy of

[5] The accommodation provided under the adopted rule is an exception to the requirement to reconcile to U.S. GAAP that is similar to the accommodation that had been provided previously to foreign private issuers that prepare price level adjusted financial statements. See Securities Act Release No. 7117

the Regulatory Flexibility Certification should contact Wayne E. Carnall, (202) 942–2960, Deputy Chief Accountant, Division of Corporation Finance, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549.

VII. Statutory Bases

The Commission's rules and forms are amended pursuant to section 19 of the Securities Act of 1933 and sections 3(b), 4A, 12, 13, 14, 15, 16, and 23 of the Securities Exchange Act of 1934.

VIII. Effective Date

The amendment to Form 20–F shall be effective immediately upon publication in the **Federal Register**, in accordance with the Administrative Procedure Act, which allows effectiveness in less than 30 days after publications for, *inter alia*, "a substantive rule which grants or recognizes an exemption or relieves a restriction." 5 U.S.C. 553(d)(1).

List of Subjects in 17 CFR Part 249

Accounting, Reporting and recordkeeping requirements, Securities.

Text of Rule and Form Amendments

In accordance with the foregoing, Title 17, Chapter II of the Code of Federal Regulations is amended as follows:

PART 249—FORMS, SECURITIES EXCHANGE ACT OF 1934

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

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

§ 249.220f [Amended]

2. By amending Form 20–F (referenced in § 249.220f) by adding paragraph (viii) to Item 17(c)(2) and adding Instruction (6) to Item 17 and adding paragraph (viii) to Item 18(c)(2) and adding Instruction (5) to Item 18 to read as follows:

Note: The Form 20–F does not appear and the amendments will not appear in the Code of Federal Regulations.

Form 20–F

Item 17. Financial Statements

* * * * *

(c) * * *

(2) * * *

(viii) Issuers that prepare financial statements on a basis of accounting other than U.S. generally accepted accounting principles and which basis conforms with the guidance in International Accounting Standards No. 22, as amended in 1993, with respect to the period of amortization of goodwill and negative goodwill may omit the disclosures specified by paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) of this Item regarding the effects of differences attributable solely to the period of amortization. Goodwill and negative goodwill that is subject to the amortization period under IAS 22 is based on the amount determined in accordance with U.S. GAAP

Instructions

* * * * *

(6)(a) A business combination which would be deemed a uniting of interests under International Accounting Standards No. 22, as amended in 1993 ("IAS 22"), and was accounted for using that method in the primary financial statements may be deemed to be, for purposes of the reconciliation to U.S. GAAP, a pooling of interests. A business combination which would be deemed an acquisition under IAS 22 and was accounted for using that method in the primary financial statements may be deemed to be, for purposes of the reconciliation to U.S. GAAP, a purchase. This paragraph is not applicable for promoter transactions, leveraged buyouts, mergers of entities under common control, reverse acquisitions and other transactions not addressed by IAS 22. Once the method of accounting is determined, the reconciliation to U.S. GAAP should quantify differences between the balances in the primary financial statements and the amounts determined in accordance with U.S. GAAP as required by this Item.

(b) To obtain relief from the reconciliation requirement regarding the method of accounting, or the amortization period of goodwill or negative goodwill, the primary financial statements should apply the respective provisions of IAS 22 to all business combinations consummated on or after January 1, 1995. issuers can either retroactively adopt IAS 22 in the primary financial statements for all business combinations consummated prior to January 1, 1995, or provide a full reconciliation to U.S. GAAP for such prior business combinations.

(c) If the method of accounting for a business combination and/or the provisions for amortization of goodwill or negative goodwill complies with IAS 22, a statement to that effect must be included in the financial statements. The reconciliation shall state that the amounts presented comply with Item 17 of Form 20–F and are different from that required by U.S. GAAP

Item 18. Financial Statements

* * * * *

(c) * * *

(2) * * *

(viii) Issuers that prepare financial statements on a basis of accounting other than U.S. generally accepted accounting principles and which basis conforms with the guidance in International Accounting Standards No. 22, as amended in 1993, with respect to the period of amortization of goodwill and negative goodwill may omit the disclosures specified by paragraphs (c)(2)(i), (c)(2)(ii), and (c)(2)(iii) of this Item regarding the effects of differences attributable solely to the period of amortization. Goodwill and negative goodwill that is subject to the amortization period under IAS 22 is based on the amount determined in accordance with U.S. GAAP

* * * * *

Instructions

* * * * *

(5)(a) A business combination which would be deemed a uniting of interests under International Accounting Standards No. 22, as amended in 1993 ("IAS 22"), and was accounted for using that method in the primary financial statements may be deemed to be, for purposes of the reconciliation to U.S. GAAP, a pooling of interests. A business combination which would be deemed an acquisition under IAS 22 and was accounted for using that method in the primary financial statements may be deemed to be, for purposes of the reconciliation to U.S. GAAP a purchase. This paragraph is not applicable for promoter transactions, leveraged buyouts, mergers of entities under common control, reverse acquisitions and other transactions not addressed by IAS 22. Once the method of accounting is determined, the reconciliation to U.S. GAAP should quantify differences between the balances in the primary financial statements and the amounts determined in accordance with U.S. GAAP as required by this item.

(b) To obtain relief from the reconciliation requirement regarding the method of accounting, or the amortization period of goodwill or negative goodwill, the primary financial statements should apply the respective provisions of IAS 22 to all business combinations consummated on or after January 1, 1995. Issuers can either retroactively adopt IAS 22 in the primary financial statements for all business combinations consummated prior to January 1, 1995, or provide a full reconciliation to U.S. GAAP for such prior business combinations.

(c) If the method of accounting for a business combination and/or the provisions for amortization of goodwill or negative goodwill complies with IAS 22, a statement to that effect must be included in the financial statements. The reconciliation shall state that the amounts presented comply with Item 18 of Form 20–F and are different from that required by U.S. GAAP

By the Commission.

Dated: December 13, 1994.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 94–31037 Filed 12–19–94; 8:45 am]

BILLING CODE 8010–01–P–M