

RELEASE NO. 84

November 24, 1959

HOLDING COMPANY ACT OF 1935
Release No. 14093**Revision to Uniform System of Accounts for Public Utility Holding Companies**

On September 30, 1959, the Securities and Exchange Commission published for views and comments a proposal to revise the Uniform System of Accounts for Public Utility Holding Companies for the purpose of establishing a regulation to govern the retention, preservation and destruction of the books of account and other records of registered holding companies which are not also operating companies. Interested persons recommended certain minor changes, most of which have been incorporated in the revision of the Uniform System of Accounts adopted by the Commission today.

The Commission's action was taken pursuant to Sections 15 and 20(a) of the Public Utility Holding Company Act of 1935. Section 15 provides, among other things, that "Every registered holding company and every subsidiary company thereof shall make, keep and preserve for such periods, such accounts, cost-accounting procedures, correspondence, memoranda, papers, books, and other records as the Commission deems necessary or appropriate in the public interest or for the protection of investors or consumers or for the enforcement of the provisions of this title or the rules, regulations, or orders thereunder."

Section 15 has been implemented by Rule 26 which prescribes the Uniform System of Accounts for registered holding companies which do not also operate utility assets or other physical properties.

The revision adopted by the Commission eliminates the prohibition against the destruction of records heretofore contained in General Instruction 3C of the Uniform System of Accounts and adds thereto an Appendix which contains general instructions and a detailed schedule prescribing fixed retention periods and microfilming privileges with respect to books of account and other records of those registered holding companies to which the Uniform System of Accounts is applicable.

The revision permits the orderly destruction of voluminous records, the retention of which is deemed no longer necessary or appropriate in the public interest or for the protection of investors and consumers.

The Appendix which has been added to the Uniform System of Accounts is entitled "REGULATION TO GOVERN THE PRESERVATION AND DESTRUCTION OF BOOKS OF ACCOUNT AND OTHER RECORDS OF COMPANIES WHICH ARE SUBJECT TO THE UNIFORM SYSTEM OF ACCOUNTS FOR PUBLIC UTILITY HOLDING COMPANIES UNDER THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935." See Appendix p.213.

For the purpose of implementing the Regulation contained in the Appendix, the following additional amendments to the General Instructions of the Uniform System of Accounts also were adopted by the Commission today:

Page 1. In the 3rd line of General Instruction 3B insert the words "stockholder records," between the terms "stock books," and "reports."

Page 1. Delete the present text of General Instruction 3C and insert in lieu thereof the following:

"No Company shall destroy any books or records except as authorized by the provisions of the 'Regulation to Govern the Preservation and Destruction of Books of Account and Other Records of Companies which are Subject to the Uniform System of Accounts for Public Utility Holding Companies Under the Public Utility Holding Company Act of 1935' contained in the Appendix of this Uniform System of Accounts."

Page 3. Add the following paragraph to General Instruction 4:

"M. 'Stockholder records,' as used in this Uniform System of Accounts, means all rec-

ords which are necessary (a) to determine the ownership of record at any time of any shares of the Company's capital stock; and (b) to determine the votes cast on any issue or matter by any stockholder, at any meeting of the Company's stockholders."

The revision of the Uniform System of Accounts shall become effective immediately.

By the Commission.

ORVAL L. DuBOIS,
Secretary.

**APPENDIX TO THE UNIFORM SYSTEM OF ACCOUNTS FOR PUBLIC UTILITY HOLDING
COMPANIES UNDER THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935**

**REGULATION TO GOVERN THE PRESERVATION AND DESTRUCTION OF BOOKS OF ACCOUNT AND OTHER
RECORDS OF COMPANIES WHICH ARE SUBJECT TO THE UNIFORM SYSTEM OF ACCOUNTS FOR PUBLIC
UTILITY HOLDING COMPANIES UNDER THE PUBLIC UTILITY HOLDING COMPANY ACT OF 1935**

TABLE OF CONTENTS

GENERAL INSTRUCTIONS

	Page
1. Scope of Regulation.....	214
2. Designation of Supervisory Official.....	214
3. Protection and Storage of Records.....	214
4. Index of Records.....	214
5. Preservation of Records on Microfilm.....	214
6. Destruction of Records.....	215
7. Premature Destruction or Loss of Records.....	215
8. Schedule of Records Retention Periods.....	215

SCHEDULE OF RECORDS RETENTION PERIODS

Corporate and General

1. Capital Stock Records.....	216
2. Debt Security Records.....	216
3. Filings with Regulatory Bodies.....	217
4. Organization Documents.....	218
5. Proxies and Voting Lists.....	218
6. Minute Books.....	218
7. Contracts and Agreements.....	218
8. General and Subsidiary Ledgers.....	219
9. Journals.....	219
10. Vouchers and Other Papers Supporting Journal Entries.....	219
11. Cash Books.....	219
12. Voucher Registers.....	219
13. Vouchers Evidencing Disbursements.....	219
14. Accounts Receivable.....	220
15. Other Records of Securities Owned.....	220
16. Insurance Records.....	220
17. Tax Records.....	221
18. Accountants' and Auditors' Reports.....	221
19. Automatic Data Processing Records.....	221
20. Appraisals and Valuations.....	222

Treasury

21. Statements of Funds and Deposits.....	222
22. Records of Deposits with Banks and Others.....	222
23. Records of Receipts and Disbursements.....	222

Payroll and Personnel Records

24. Payroll Records.....	222
25. Assignments, Attachments and Garnishments.....	223
26. Personnel Records.....	223
27. Instructions to Employees and Others.....	223
28. Organization Diagrams and Charts.....	224

Purchase and Stores

29. Purchase and Stores Records.....	224
--------------------------------------	-----

Miscellaneous

30. Statistics and Miscellaneous.....	224
31. Budgets and Other Forecasts.....	224
32. Injuries and Damages.....	224
33. Correspondence.....	225
34. Other Miscellaneous Records.....	225
35. Records of Predecessors and Former Associates.....	225

GENERAL INSTRUCTIONS

1. Scope of Regulation

(a) The Regulation to Govern the Preservation and Destruction of Books of Account and Other Records of Companies Which are Subject to the Uniform System of Accounts for Public Utility Holding Companies Under the Public Utility Holding Company Act of 1935 ("Regulation") includes these General Instructions ("Instructions") and the Schedule of Records Retention Periods ("Schedule"). The term "Company," as used in the Regulation, means any company subject to the Uniform System of Accounts for Public Utility Holding Companies Under the Public Utility Holding Company Act of 1935 ("Uniform System of Accounts"). As used in the Instructions, "Records" means (1) all books of account and other records of the Company and (2) any records prepared or maintained for the Company by any stock transfer agent, dividend paying agent, registrar, coupon paying agent, or any other agent which performs or has performed corporate functions for the Company.

The Regulation applies to all Records, as herein-before defined; and the Regulation also applies to all records of any predecessor or former associate of the Company and to all records of any former associate of any predecessor of the Company which records of such predecessors and former associates are in the possession of or under the control of the Company. (See Item 36 of the Schedule.)

(b) Except as otherwise specified herein, the Regulation shall not be construed as requiring the preparation or maintenance of Records not required to be prepared or maintained by the Uniform System of Accounts or other rules or regulations of the Commission.

(c) The Regulation shall not be construed as excusing compliance with any other lawful requirement for the preservation of Records for periods longer than those prescribed in the Regulation.

(d) Unless otherwise specified in the Schedule, duplicate copies of Records may be destroyed at any time: *Provided, however,* That such duplicate copies contain no significant information not shown on the originals.

(e) Records not listed in the Schedule and which would be useful in developing the history of or facts regarding any transactions recorded by the Company in its accounts and which serve purposes similar to or are related to Records listed in the Schedule shall be preserved for the same periods as those specified for the similar or related Records listed in the Schedule.

Any other Records not listed in the Schedule and which would be useful in developing the history of or facts regarding any transactions recorded by the Company in its accounts shall be preserved by the Company for such periods as the Commission may, upon its own motion or upon application by the Company, prescribe.

Any other Records of the Company may be destroyed or otherwise disposed of at the option of the Company.

(f) Notwithstanding the provisions of the Regulation, the Commission may, upon the request of any Company, authorize the destruction of any Records of such Company.

2. Designation of Supervisory Official

Each Company subject to the Regulation shall designate one or more officials to supervise the preservation and authorized destruction of its Records. The Company may designate any bank or trust company, which performs corporate functions for the Company or which acts as a trustee under instruments securing bonds or debentures of the Company, as an official to supervise the preservation or authorized destruction of any Records of the Company maintained or stored by such bank or trust company.

3. Protection and Storage of Records

The Company shall provide reasonable protection from damage by fire, flood and other hazards for Records required by the Regulation to be preserved and, in the selection of storage space, safeguard such Records from unnecessary exposure to deterioration from excessive humidity, dryness, or lack of proper ventilation.

4. Index of Records

At each office of the Company, where Records are kept or stored, such Records as are required by the Regulation to be preserved shall be so arranged, filed, or currently indexed that such Records shall be readily available for inspection by authorized representatives of regulatory agencies concerned.

5. Preservation of Records on Microfilm

(a) As indicated in the Schedule, certain Records may be microfilmed and the film retained in lieu of the original Records, *provided* the procedures prescribed in the regulation are followed.

(b) Indicators are used in the Schedule to designate those Records for which microfilm may be substituted in lieu of the original Records. The indicators, which are listed in the Schedule in the column marked "Microfilm Indicators," are as follows:

M—Indicates that microfilm may be substituted for retention of the original Records at any time after the use of such Records for current recording purposes has been discontinued.

M 20, M 10, etc.—Indicates that microfilm may be substituted for retention of the original Records at any time after such Records have been retained in their original form for the number of years corresponding to the numeral; i.e., 20 years, 10 years, etc.

ME—Indicates Records for which microfilm may be substituted for retention of the original Records at any time subsequent to the expiration, cancellation, supersedeure, or other conditions shown in the column marked "Period of Retention." Thus for Item 7(a) microfilm is not acceptable for current contracts, but is acceptable for expired or cancelled contracts.

(c) Absence of any of the "M" indicators explained above indicates that microfilm may not be substituted for retention of the Records described.

(d) Prior to microphotographing, the Records shall be

so prepared, arranged, classified, and identified as readily to permit the subsequent location, examination and reproduction of the microphotographs thereof. Any significant characteristic, feature or other attribute of the original Records, which microphotography would not reflect clearly (i.e., that the Record is a copy or that certain figures thereon are red), shall be so indicated where applicable on the pages of such Records at the time of such arrangement, classification, and identification.

(e) Each roll of film shall include a microfilm of a certificate or certificates stating that the microphotographs are direct and facsimile reproductions of the original Records and that they have been made in accordance with the Regulations.

(f) The photographic matter on each roll shall commence and end with a statement as to the nature and arrangement of the Records reproduced, the name of the photographer, and the date. Rolls of films shall not be cut. Supplemental or retaken film, whether of misplaced or omitted documents, or of portions of a film found to be spoiled or illegible or of other matters, shall be attached to the beginning of the roll, and in such event the aforementioned certificate or certificates shall cover also such supplemental or retaken film and shall state the reasons for retaking such film.

(g) All film stock shall be of approved permanent-record microcopying type, either perforated or unperforated, such as meets the minimum specifications of the National Bureau of Standards. The microphotographing and processing shall be such that the film may be read easily and that reproductions on photographic paper can be made similar in size to the documents reproduced without significant loss of clarity of detail during the periods such Records are required by the Regulation to be preserved. The Company shall be prepared to furnish, at its own expense, appropriate standard facilities for reading the microfilm. If the Commission or any other regulatory agency having jurisdiction in respect of such Records so requests, the Company shall furnish at its expense photo-

graphic reproductions of any Records, the originals of which have been microfilmed and destroyed pursuant to the provisions of the Regulation.

(h) The microfilm shall be indexed and retained in such manner as will render them readily accessible and identifiable. The film shall be stored in such manner as to provide reasonable protection from hazards such as fire, flood, theft, etc. during the periods such Records are required by the Regulation to be preserved. The film should be cared for in such manner as to prevent cracking, breaking, splitting or other deterioration.

6. Destruction of Records

The destruction of the Records permitted to be destroyed by the provisions of the Regulation may be performed in any manner elected by the Company. Precautions should be taken, however, to macerate or otherwise destroy the legibility of Records the content of which is forbidden by law to be divulged to unauthorized persons.

7. Premature Destruction or Loss of Records

When any Records are destroyed before the expiration of the periods of retention prescribed by the Regulation, a certified statement listing, as far as may be determined, the Records destroyed and describing the circumstances of accidental or other premature destruction shall be filed with the Commission within ninety (90) days from the date of discovery of such destruction. Discovery of loss of Records is to be treated in the same manner as in the case of premature destruction.

8. Schedule of Records Retention Periods

The Schedule of Records Retention Periods constitutes a part of the Regulation. The Schedule prescribes the periods of time that designated Records shall be preserved and designates those Records for which microfilm may be substituted for retention of the original Records in accordance with the Instructions.

SCHEDULE OF RECORDS RETENTION PERIODS

Description of records	Period of retention	Microfilm indicators
Corporate and General		
1. Capital Stock Records		
(a) Capital stock ledgers or other records showing the same information.	10 years after the stockholders' account is closed. ¹	M ²
(b) Capital stock subscription accounts, warrants, requests for allotments and other essential papers related thereto.	3 years after settlement.....	M
(c) Stubs or similar records of capital stock certificate issuance where not used as capital stock ledger record.	7 years after cancellation of certificate. If this record serves the purpose of a capital stock ledger 1 (a) is applicable.	M
(d) Stock transfer registers or sheets or similar records.....	7 years after last entry on page or sheet of the record.	M
(e) Papers supporting transfers of capital stock:		
(1) Papers that have been recorded officially in a court or in the office of some other public recording authority; and other papers presented by any bank or trust company requesting transfers in its capacity as a fiduciary.	Destroy at option or return to stockholder....	
(2) Any other papers not described in (e)(1) above.....	7 years from date of transfer.....	M
(f) Cancelled capital stock certificates where not used as capital stock ledger records.	7 years after cancellation. If this record serves the purpose of a capital stock ledger, 1 (a) is applicable.	M
(g) Change of address notices of stockholders.....	Destroy at option after changes are recorded..	
(h) Bonds of indemnity and affidavits covering issuances of stock certificates to replace lost certificates.	7 years after expiration of bonds.....	M
(i) Letters, notices, reports, statements and other communications distributed to all stockholders of a particular class:		
(1) Formal communications addressed to all stockholders of a particular class, including annual reports to stockholders, notices of annual and special meetings of stockholders, and other notices, letters, reports or statements, relating to corporate or stockholder actions.	Permanently.....	M-10
(2) Interim reports of operations, dividend notices, speeches of corporate officers, notices of change of corporate address or telephone numbers, etc.	6 years after the date thereof.....	M
(j) Dividend registers, lists or similar records.....	6 years after dividend payment.....	M
(k) Paid dividend checks.....	6 years after issuance.....	M
(l) Third party dividend orders.....	6 years after rescission order.....	M
2. Debt Security Records ³		
(a) Registered bond and debenture ledgers.....	3 years after redemption of issue.....	ME
(b) Bond and debenture subscription accounts, warrants, subscription notices, requests for allotment and essential papers related thereto.	3 years after settlement.....	M
(c) Stubs or similar records of bond and debenture certificates issued.	3 years after redemption of issue.....	M

¹ For the purposes of the Regulation a stockholder's account may be treated as a closed account at the time that such stockholder ceases to be a holder of record of the particular class of stock of the Company and the 10-year retention period prescribed herein shall run from that date. If such person subsequently acquires shares of capital stock of the Company and thus again becomes a stockholder of the Company, the record of such acquisition shall be treated as a new stockholder account.

² After account is closed as defined in n. 1 *supra*.

³ The terms "bonds" and "debentures" as used in captions (a) through (f) of this Item shall include all debt securities, such as bonds, debentures or notes other than debt securities which evidence temporary borrowings and which are expected to be repaid out of the proceeds of the sale of longer term securities. Typical of such temporary debt securities as described in 2(i) would be notes issued to banks evidencing temporary working capital and construction loans and gas storage loans.

Description of records	Period of retention	Microfilm indicators
Corporate and General—Continued		
2. Debt Security Records—Continued		
(d) Papers supporting transfers of registered bonds and debentures:		
(1) Papers that have been recorded officially in a court or in the office of some other public recording authority; and other papers presented by any bank or trust company requesting transfers in its capacity as a fiduciary.	Destroy at option or return to holder of the bonds or debentures.	
(2) Any other papers not described in (d)(1) above.....	7 years after transfer.....	M
(e) Records of bond and debenture interest coupons paid and unpaid.	Destroy at option in compliance with Note below.	M
(f) Cancelled bonds and debentures and paid interest coupons pertaining thereto.*	Destroy at option in compliance with Note below.	M
(g) Trust indentures, loan agreements or other contracts or agreements securing debt securities issued. (If such papers or documents are included among the records covered by Item 3 of the Regulation, this instruction will not apply.)	7 years after redemption of issue.....	ME
(h) Copies of reports, statements, letters or memoranda filed with Trustee(s) pursuant to provisions of trust indenture or other security instrument or agreement securing debt securities issued.	6 years after redemption of issue. (Destroy at option provided that the Trustee(s) under such indenture or security instrument is a National Bank, a member of the Federal Reserve System or a subsidiary of any such National Bank or Federal Reserve System member bank; and provided further that the Trustee(s) has certified to the Company that copies of all such documents will be available in the offices of the Trustee(s) for inspection at any time prior to redemption by holders of debt securities to which such documents relate and for inspection by any Federal or State regulatory authority prior to redemption and for an additional period of 6 years after redemption)	M
(i) Paid or cancelled debt securities evidencing temporary borrowings.	3 years after payment or cancellation provided other records of issuance and payment or cancellation are maintained.	M
(j) Paid interest checks.....	6 years after issuance.....	M-3
3. Filings with Regulatory Bodies		
(a) One copy of every notification, registration statement, periodic or other report, reorganization plan, application, declaration or other filing made by the Company with the Securities and Exchange Commission or with any other Federal or State regulatory body, including copies of exhibits in support of such filings. ⁴	Permanently.....	M-3
(b) Official copies of formal notices, opinions and orders of the Securities and Exchange Commission or of any other Federal or State regulatory body served upon the Company.	Permanently.....	M-3

* Cancelled bonds and debentures and paid interest coupons pertaining thereto may be destroyed, provided that a certificate of destruction giving full descriptive reference to the documents destroyed shall be made by the person or persons authorized to perform such destruction and shall be retained by the Company for the period herein prescribed. The certificate of destruction evidencing the destruction of paid interest coupons pertaining to bonds or debentures need not contain a listing of a bond or debenture serial numbers pertaining to such paid interest coupons. When documents represent debt secured by mortgage and the destruction of such documents is performed by a person or persons other than a representative of the Trustee(s), the certificate of destruction shall also be authorized by a representative of the Trustee(s) acting in conjunction with the person

or persons destroying the documents or shall have the Trustee(s)' acceptance thereon. The cremation certificate above described may be destroyed 7 years after the payment and discharge of the bonds or debentures or interest coupons described in such certificate. Such certificate may be microfilmed in accordance with indicator "M." See Instruction 5(b) of the Regulation.

⁴ If a retention period is prescribed elsewhere in the Schedule with respect to any document which is included as an exhibit to any filing retained pursuant to the requirements of this item, the Company need retain only one copy of such document in its files provided appropriate cross references are established.

Description of records	Period of retention	Microfilm indicators
Corporate and General—Continued		
4. Organization Documents		
Corporate charters, franchises or certificates of incorporation and by-laws.	Permanently.....	M
5. Proxies and Voting Lists ^a		
(a) Executed proxies of holders of voting securities.....	6 years after date of shareholders' meeting for which executed. (Destroy at option provided the Company preserves certified voting lists as described in 5(b) hereof.)	M
(b) Lists, certified by one or more independent persons, of holders of voting securities represented at meetings of shareholders showing the votes cast by each such holder for or against each issue voted upon at such meetings.	6 years after date of shareholders' meeting for which prepared. (Destroy at option provide the company preserves for 6 years the executed proxies of holders of voting securities as provided in 5(a) hereof.)	M
6. Minute Books of stockholders', directors' and directors' committee meetings.	Permanently.....	M-10
7. Contracts and Agreements		
(a) Contracts and agreements entered into by the Company for the procurement of services, such as management, consulting, accounting, legal, financial or engineering services.	Permanently if reflected in the plant accounts of associates or in the investment account of the Company—all other such contracts 5 years after cancellation or expiration.	ME
(b) Contracts, agreements, deeds and other title papers relating to the purchase, sale or lease of properties (other than properties purchased from, sold to, or leased to or from present or former associates):		
(1) Those involving annual expenditures of not more than \$5,000 and which relate to automobiles; office equipment, materials and supplies; building space; printing and other similar items.	Destroy at option if books of the Company have been examined by independent accountants subsequent to expiration, cancellation or execution of such contracts.	ME
(2) Those involving annual expenditures of more than \$5,000 but less than \$125,000 and which relate to renting or leasing of building space.	5 years after cancellation or expiration.....	ME
(3) Those involving annual expenditures of more than \$5,000 but less than \$20,000 and which relate to automobiles; office equipment, materials and supplies; printing and similar items.	5 years after settlement.....	ME
(4) All others.....	Permanently.....	ME
(c) Contracts or agreements for the acquisition or disposal of investments. (Excluding temporary cash investments.)	Permanently.....	ME
(d) Contracts or agreements for the purchase, issuance or sale of the Company's own securities, other than under an employee's stock purchase plan. (This instruction will not apply if the contracts and agreements are covered by Item 3 of the Schedule.)	Permanently.....	ME
(e) Contracts or agreements for the purchase, sale, transmission or production of electric energy or of natural or manufactured gas. (Other than for the Company's own use.)	6 years after cancellation or expiration. (If contract or agreement is transferred or assigned, retain copy for 6 years after assignment or transfer.)	ME

^a It is the intent of this provision that each Company shall maintain for a period of at least 6 years adequate records showing the shareholders of record represented at each stockholders meeting of the Company and the

votes cast by each such shareholder for or against each issue voted upon at each such stockholders' meeting.

Description of records	Period of retention	Microfilm indicators
Corporate and General—Continued		
7. Contracts and Agreement—Continued		
(f) Contracts or agreements with individual employees, labor unions and other employee organizations relative to wage rates, hours and similar matters. (Other than warrants and requests for allotment.)	6 years after cancellation or expiration.....	ME
(g) Any other contracts or agreements entered into with present or former associate companies relating to:	Permanently.....	ME
(1) Investments or properties of the Company or investments or properties of associate companies.	6 years after cancellation or expiration.....	ME
(2) Automobiles; office equipment, materials and supplies; building space; printing and similar items.	6 years after execution, expiration or cancellation.	ME
(3) All others.....	For same period as contract to which they relate.	ME
(h) Memoranda essential to clarify or explain provisions of contracts and agreements.	Destroy at option.....	ME
(i) Summaries and abstracts of contracts or agreements.....	Destroy at option.....	
(j) Card or book records of contracts or agreements showing renewal or expiration of same and records of performance.		
8. General and Subsidiary Ledgers		
(a) General ledgers and indexes thereto.....	Permanently.....	M-20
(b) Ledgers subsidiary or auxiliary to general ledgers, except ledgers provided for elsewhere and indexes thereto.	Permanently.....	M-20
(c) Trial balance sheets of general and subsidiary ledgers or equivalent records.	5 years after date of trial balance.....	M
9. Journals		
General and subsidiary journals.....	Permanently.....	M-20
10. Vouchers and Other Papers Supporting Journal Entries		
(a) Vouchers supporting general and subsidiary journal entries and papers forming part of or necessary to support and explain vouchers relating to—	Permanently.....	M-20
(1) Organization, fixed assets, investments, issuance of capital stock, funded debt and related accounts.	7 years after settlement.....	M
(2) All other accounts.....	Destroy when superseded if not a part of a journal entry in which event Item 9 applies.	M-10
(b) Schedules for recurring journal entries.....	Destroy when superseded.	
(c) Lists of standard journal entry numbers.....	7 years after end of fiscal year.....	M
(d) Material and supplies disbursement and labor distribution records supporting vouchers affecting operations and maintenance of the Company.		
11. Cash Books		
(a) General cash books.....	Permanently.....	M-20
(b) Cash books subsidiary or auxiliary to general cash books.....	Permanently.....	M-20
12. Voucher Registers		
Voucher register or similar records.....	Permanently.....	M-20
13. Vouchers Evidencing Disbursements		
(a) Paid and cancelled vouchers, bills, invoices, receipts, authorizations and any other supporting papers in connection with— ^a		

^a Vouchers described in Items 13(a) (2), (3) and (4) *infra* involving annual expenditures of \$5,000 or less may be destroyed at option if the books of the

Company have been examined by independent accountants.

Description of records	Period of retention	Microfilm indicators
Corporate and General—Continued		
13. Vouchers Evidencing Disbursements—Continued		
(1) Those accounts relating to organization, real estate and/or real estate interests other than building space rentals, investments, capital stock, funded debt and related accounts.	Permanently.....	M-20
(2) Those accounts relating to furniture, automobiles, machinery and equipment owned by the Company.	5 years after end of fiscal year in which such property is disposed of.	M-5
(3) Those accounts relating to renting of building space, automobiles, machinery or equipment and to the procurement of materials and supplies, printing and other items properly chargeable to expenses when acquired.	5 years after settlement.....	M-5
(4) Those accounts relating to all other expenditures.....	5 years after settlement.....	M
(b) Paid checks other than interest and dividend checks. (See Items 1 (k) and 2 (j) for interest and dividend checks.)	6 years after checks have been returned by bank.	M
14. Accounts Receivable		
(a) Records of all accounts receivable, registers of accounts receivable, indexes to accounts receivable and summaries of distribution of such accounts.	3 years after settlement.....	M
(b) Accounting department copies of invoices issued and supporting papers which do not accompany the original invoices and authorizations for charges including supporting papers.	3 years after settlement.....	M
(c) Periodic statements of unsettled accounts, except trial balances.	1 year after end of fiscal year.....	M
(d) Schedule of invoices to be issued.....	Destroy at option if books of the Company have been examined by independent accountants subsequent to preparation of such schedule.	
15. Other Records of Securities Owned		
Any records of securities owned, in treasury or with custodians, other than those listed above. (Excluding temporary investments of cash.)	6 years after disposition of such securities.....	M
16. Insurance Records		
(a) Records of insurance policies in force, showing coverage, premiums paid and expiration dates.	Destroy at option if books of the Company have been examined by independent accountants after expiration of such policies.	M
(b) Records of self-insurance against (1) losses from fire and casualty, (2) damage to property of others and (3) personal injuries.	3 years after date of last accounting entry with respect thereto.	M
(c) Detailed schedules or spread sheets of monthly insurance charges to operating expenses or other accounts.	Destroy at option after books of the Company have been examined by independent accountants.	
(d) Detailed schedules of monthly accruals for self-insurance.....	Destroy at option after books of the Company have been examined by independent accountants.	
(e) Insurance policies.....	1 year after expiration if books of the Company have been examined by independent accountants.	
(f) Records of amounts recovered from insurance companies in connection with losses and records of claims against insurance companies including reports of losses and supporting papers.	3 years after date of recovery.....	M
(g) Inspectors' reports and records of condition of property.....	1 year after supersession.....	M

Description of records	Period of retention	Microfilm indicators
Corporate and General—Continued		
16. Insurance Records—Continued		
(h) Reports of minor losses not covered by insurance and of losses less than minimum amount collectible.	Destroy at option after books of the Company have been examined by independent accountants.	
(i) Insurance maps of property and structures erected thereon.	Destroy at option after books of the Company have been examined by independent accountants.	
(j) Records and statements relating to insurance requirements.	Destroy at option after books of the Company have been examined by independent accountants.	
17. Tax Records		
(a) Copies of schedules, returns and supporting working papers to taxing authorities and records of appeals:		
(1) Federal income, excess profits, undistributed income and capital stock taxes.	20 years after year of return.....	M [†]
(2) State income taxes and State or local property taxes.	20 years after year of return.....	M [†]
(3) Other taxes.	10 years after payment.....	M-3
(4) Schedule of allocation of consolidated Federal income taxes to subsidiary companies.	10 years after allocation.....	M-3
(b) Tax bills from taxing authorities and receipts for payment.	5 years after settlement.....	M-3
(c) Summaries of taxes paid by classes of taxes and by location.	Destroy at option after books of the Company have been examined by independent accountants.	
(d) Summaries of taxes paid by taxing districts.	Destroy at option after books of the Company have been examined by independent accountants.	
18. Accountants' and Auditors' Reports		
(a) Reports of examinations and audits by accountants and auditors not in the regular employ of the Company. (Including reports of public accounting firms and regulatory commission accountants.)	Permanently.....	M-10
(b) Internal audit reports and working papers.	3 years after date of completion of audit.....	M
19. Automatic Data Processing Records		
(a) All records which serve as the original source data for automatic data processing. (Includes such original source data as mark sensing cards and invoices, vouchers, proxies and other records originally recorded on punched cards, tapes or similar recording media.)	Retain for the periods prescribed elsewhere in the Schedule.	
(b) Punched cards, tapes or similar recording media used as intermediate records or steps in automatic data processing equipment for assembling figures to be posted to an account or to be accumulated for some other record:		
(1) Where a printed sheet or tape or other hard copy printout which permits an audit trail and which shows such information as voucher numbers, account numbers, amounts, etc. is <i>not</i> preserved.	6 years after end of fiscal year.....	
(2) Where a printed sheet or tape or other hard copy printout which permits an audit trail and which shows such information as voucher numbers, account numbers, amounts, etc. is preserved.	Destroy at option.....	
(3) Printed sheets or tapes or other hard copy printouts described in 19 (b) (1) and (2).	6 years after end of fiscal year.....	

[†] Microfilming permitted after examination by taxing authorities.

Description of records	Period of retention	Microfilm indicators
Corporate and General—Continued		
20. Appraisals and Valuations		
Appraisals and valuations made by the Company of its properties or investments or of the properties or investments of any associate companies. (Includes all records essential thereto.)	Permanently. (Copies may be retained in lieu of original documents if the properties or investments to which the appraisal or valuations pertain are transferred to associate companies and the original documents are transferred to the acquiring companies.)	M-10
Treasury		
21. Statements of Funds and Deposits		
(a) Summaries and periodic statements of cash balances on hand and with depositories.	Destroy at option after books of the Company have been examined by independent accountants.	
(b) Statements of associates' cash balances on hand and with depositories.	Destroy at option after books of the Company have been examined by independent accountants.	
(c) Authorizations for and statements of transfers of funds from one depository to another.	2 years after end of fiscal year.....	M
(d) Requisitions and receipts for funds furnished associates and others.	Destroy at option after funds have been returned or accounted for and examined by independent accountants.	
(e) Records of fidelity bonds of employees and others responsible for funds of the company.	Destroy at option after liability of bonding company has expired and item has been examined by independent accountants.	
22. Records of Deposits With Banks and Others		
(a) Bank deposit slips or similar records.....	1 year after end of fiscal year.....	
(b) Advice of deposits made when information thereon is shown on other records which are retained.	Destroy at option after books of the Company have been examined by independent accountants.	
(c) Statements from depositories showing the details of funds received, disbursed and transferred and balances on deposit.	3 years after end of fiscal year.....	M-1
(d) Bank reconciliation papers.....	3 years after end of fiscal year.....	M-1
(e) Statements from banks of interest credits.....	1 year after end of fiscal year.	
(f) Check registers or other records of checks issued.....	Retain for 6 years if check register is duplicated in the voucher register; if not so duplicated, retain for same periods as Item 13, as applicable.	M
(g) Correspondence and memoranda relating to the stopping of payment of bank checks and to the issuance of duplicate checks.	6 years or destroy at option after check is recovered.	M
23. Records of Receipts and Disbursements		
(a) Daily or other periodic statements of receipts or disbursements of funds.	2 years after end of fiscal year.....	M
(b) Records or periodic statements of outstanding vouchers, checks, drafts, etc. issued and not presented.	2 years after end of fiscal year.....	M
(c) Reports of associates showing working fund transactions and summaries thereof.	Optional after end of fiscal year.....	
Payroll and Personnel Records		
24. Payroll Records⁸		
(a) Payroll sheets or registers of payment of salaries and wages	7 years after end of fiscal year.....	M

⁸ The requirements of Item 13 of this Schedule shall be observed if applicable.

Description of records	Period of retention	Microfilm indicators
Payroll and Personnel Records—Continued		
24. Payroll Records—Continued		
to individual officers and employees. (See 24(i) for pension or annuity payrolls.)		
(b) Records showing the distribution of salaries and wages paid to officers and employees for each monthly, semi-monthly or weekly payroll period and summaries or recapitulation statements of such distribution.	7 years after end of fiscal year.....	M
(c) Time tickets, time sheets, time cards, workmen's reports and other records showing hours worked, description of work and accounts to be charged.	7 years after end of fiscal year.....	M
(d) Paid checks, receipts for wages paid in cash and other evidences of payments for services rendered by employees.	6 years after end of fiscal year.....	M
(e) Receipts for payrolls and pay checks delivered to paymasters or other employees for distribution.	1 year after end of fiscal year.....	
(f) Authorizations for changes in wage and salary rates, summaries and reports of changes in payrolls and similar records.	3 years after end of fiscal year.....	M
(g) Payroll authorizations and records of authorized positions.	3 years after end of fiscal year.....	M
(h) Comparative or analytical statements of payroll.....	1 year after end of fiscal year.....	
(i) Pension or annuity payrolls.....	7 years after end of fiscal year.....	M
(j) Contracts, agreements and/or other essential records necessary to the carrying out of the functions of an employees' stock purchase plan or other type of employees' savings plan.		
(1) Custodian agreement.....	6 years after termination.....	M
(2) Transfer agent agreement or instructions.....	6 years after termination.....	M
(3) Broker's and other security purchase confirmations....	6 years after date of confirmation.....	M
(4) Security issue requisitions with supporting individual statements and/or reports.	6 years after date of requisition.....	M
(5) Employees' authorizations and withdrawal agreements.	3 years after withdrawal.....	M
(6) Copies of notices, letters, statements and all other material released, issued or mailed to eligible and/or participating employees both individually and collectively.	6 years after date of communication.....	M
(7) Data processing records, reports and other accounting controls.	6 years after date of inception.....	M
25. Assignments, Attachments and Garnishments		
(a) Record of assignments, attachments and garnishments of employees' salaries including files of notices, etc. essential thereto.	Destroy at option after books of the Company have been examined by independent accountants.	
(b) Minors' salary releases.....	Destroy at option after books of the Company have been examined by independent accountants.	
26. Personnel Records		
(a) Records of employees' service, attendance and other essential data. (This will also include all records relating to the computations of accruals in connection with employees' savings and pension plans.)	7 years after termination of employment of executive or professional employees. Destroy at option after termination of employment of other employees.	ME
(b) Applications for employment, requests for medical examination, medical examiner's reports, photographs and other identification records and other miscellaneous records pertaining to the hiring of employees.	Destroy at option.....	
27. Instructions to Employees and Others		
(a) Bulletins or memoranda of general instructions issued by the Company to employees of the holding company system per-	20 years after expiration or supersession.....	M

Description of records	Period of retention	Microfilm indicators
Payroll and Personnel Records—Continued		
27. Instructions to Employees and Others—Continued		
taining to changes in accounting, engineering, operating, maintenance and construction policies.		
(b) Bulletins or memoranda of general instructions issued by the Company to employees of the holding company system pertaining to accounting, engineering, operating, maintenance and construction methods and procedures.	6 years after expiration or supersession.....	M
(c) Notices to employees on matters of discipline, department and similar subjects.	Destroy at option.....	
28. Organization Diagrams and Charts	3 years after supersession.....	
Purchase and Stores		
29. Purchase and Stores Records.....	Any purchases and stores records related to disbursement vouchers shall be retained for the periods prescribed for such vouchers. (See Item 13.) All other records pertaining to purchases and stores may be destroyed at option.	
Miscellaneous		
30. Statistics and Miscellaneous		
(a) Annual financial, operating and statistical reports regularly prepared in the course of business for internal administrative or operating purposes (and not used as the basis for entries to the accounts of the companies concerned) to show the results of operations and the financial condition of the holding company system, including supporting detailed reports and statements essential to verification of the main reports.	Permanently.....	M-20
(b) Quarterly, monthly or other periodic financial, operating and other statistical reports as above.	3 years after end of fiscal year in which prepared.	
(c) All other statistical reports (not covered elsewhere in the Schedule) prepared for internal administrative or operating purposes only and not used as the basis for entries to the accounts of the Company.	Destroy at option.....	
31. Budgets and Other Forecasts (prepared for internal administrative or operating purposes) of estimated future income, receipts and expenditures in connection with financing, construction and operations and acquisitions or disposals of properties or investments by the Company and its associate companies, including revisions of such estimates and memoranda showing reasons for revisions; also records showing comparison of actual income and receipts and expenditures with estimates.	3 years after end of fiscal year in which prepared.	
32. Injuries and Damages		
(a) Claim registers, card or book indexes and similar records in connection with claims presented against the Company in connection with accidents resulting in damage to the property of others or personal injuries.	2 years after settlement.....	M
(b) Papers, reports, statements of witnesses, etc. necessary to the support or rejection of individual claims against the Company.	2 years after settlement.....	M
(c) Other papers, reports or statements pertaining to accidents resulting in property damage or personal injuries not necessary to the support or rejection of such claims.	Destroy at option.....	
(d) Detailed schedules or spread sheets of payments to others for personal injuries or for property damage.	2 years after settlement.....	M

Description of records	Period of retention	Microfilm indicators
Miscellaneous—Continued		
33. Correspondence		
(a) Correspondence and indexes and other miscellaneous material essential to and relating to subjects covered by other items of the Schedule. (Letters requesting copies of published materials may be destroyed at option. Correspondence with associate companies and their officers, directors and employees requesting information for use by the Company in compiling its annual reports on Form U5S or for use in compiling reports and filings for other regulatory agencies may be destroyed after 1 year.)	As may be permitted for items to which correspondence relates.	Same as instruction for retention period.
(b) Stenographers' notebooks and dictaphone or other mechanical device records.	Destroy at option.....	
(c) Mailing lists of prospects for appliance sales, etc.....	Destroy at option.....	
(d) Mailing lists of prospects for sales of Company's securities other than lists of all stockholders.	5 years after end of fiscal year in which prepared.	M
34. Other Miscellaneous Records		
(a) Copies of advertisements by the Company in behalf of itself or any associate company in newspapers, magazines and other publications including records thereof. (Excluding advertising of product, appliances, employment opportunities, services, territory, routine notices and invitations for bids for securities all of which may be destroyed at option.)	10 years after date of publication.....	M
(b) Receipts and records pertaining to delivery of articles to employess such as badges, keys and material receipt books.	Destroy at option.....	
(c) Records of building space occupied by various departments of the Company.	Destroy at option.....	
(d) Indexes of forms used by the Company.....	Destroy at option.....	
(e) Transmittal lists or forms used for indicating papers and records forwarded from one department to another provided such lists do not contain data affecting the accounts of the Company.	Destroy at option.....	
35. Records of Predecessors and Former Associates		

The records of any predecessor or former associate of the Company and the records of any former associate of any predecessor of the Company, which records are in the possession of or under the control of the Company, shall be retained by the Company until the Commission shall by rule, regulation or order have authorized the destruction or other disposition of such records: *Provided*, That, where any such predecessor or former associate was solely a holding company not engaged in the performance of service, sales or construction contracts for associate companies, the records of such predecessor or former associate holding company may be destroyed in accordance with the provisions of the Schedule: *And provided further*, That where any such predecessor or former associate was a public utility company as defined in the Act or was any other operating company commonly known as a public utility company, the records of such predecessor or former associate operating company may be destroyed in accordance with applicable records retention regulations of the Federal Power Commission or of any State Commission having jurisdiction. For the purpose of this instruction, the records of predecessors and former associates, as described herein, shall be deemed to include records prepared or maintained for such predecessors or former associates by any stock transfer agent, dividend paying agent, registrar, coupon paying agent, or any other agent which performs or has performed corporate functions for such predecessors or former associates, provided such records are in the possession of or under the control of the Company.

RELEASE NO. 85

February 29, 1960

SECURITIES ACT OF 1933
Release No. 4191

SECURITIES EXCHANGE ACT OF 1934
Release No. 6189

HOLDING COMPANY ACT OF 1935
Release No. 14173

INVESTMENT COMPANY ACT OF 1940
Release No. 2977

Statement of Administrative Policy regarding Balance Sheet Treatment of Credit Equivalent to Reduction in Income Taxes

On December 30, 1958, in Securities Act Release No. 4010¹ the Commission gave notice of its intention to announce a statement of administrative policy regarding the balance sheet treatment, in financial statements filed with the Commission, of the credit equivalent to the reduction of income taxes arising from the deduction of costs for income tax purposes at a more rapid rate than for financial statement purposes. Comments and views thereon were submitted and oral presentation before the Commission was made by interested persons on April 8, and 10, 1959.

Under various statutes administered by it, the Commission has the authority and the corresponding responsibility to require that the financial statements filed with it be prepared in a manner which provides adequate and fair disclosure. This statement of policy is designed to advise all interested persons of the Commission's views as to the presentation in financial statements filed with the Commission of the credit arising when deferred tax accounting is employed. It pertains to the propriety of designating as earned surplus (or its equivalent) or in any manner as a part of equity capital, in financial statements filed with this Commission, the accumulated credit arising from accounting for reductions in income taxes for various items, including those under Section 167 (liberalized depreciation) and Section 168 (accelerated amortization of emergency facilities) of the Internal Revenue Code of 1954. It is not intended to direct or establish any system of accounts or to specify the manner in which a partic-

ular item shall be recorded on the books of the reporting companies, nor is it intended in any way to affect the requirements of any other governmental agency, Federal or State, with respect to the manner in which such books or account shall be kept.²

The problem arises from the deduction of costs for income tax purposes at a faster rate than for financial statement purposes where the difference is material. The amount of income tax payable for any period is affected by the amount of costs deducted in determining taxable income. In a year

¹ Representatives of companies subject to the jurisdiction of the Commission under the Public Utility Holding Company Act of 1935 as registered holding companies or subsidiary companies thereof have contended that this Commission has no power to prescribe the manner in which the accumulated credit arising from deferred tax accounting should be classified in the accounts of the company. In support of this contention, reference was made to Section 20(b) of that Act. That Section provides that "in the case of the accounts of any company whose methods of accounting are prescribed under the provisions of any law of the United States or of any State, the rules and regulations or orders of the Commission in respect of accounts shall not be inconsistent with the requirements imposed by such law or any rule or regulation thereunder; . . . [Emphasis supplied.] For reasons stated above, this contention misconceives the nature of the action herein taken.

In this connection the Commission today modified Rule 28 promulgated under the Public Utility Holding Company Act of 1935 (17 CFR 250.28) so as to conform the language of that rule with the policy here announced. Rule 28 provided, so far as is here pertinent, that no registered holding company or subsidiary thereof could publish financial statements inconsistent with its book accounts. The rule as modified provides, in effect, that a registered holding company or subsidiary thereof need not conform its published financial statements with its book accounts where such deviation is authorized or required by this Commission by rule, regulation, order, statement of administrative policy, or otherwise. (Holding Company Act Release No. 14172.)

¹ This was also issued as Securities Exchange Act Release No. 5844; Holding Company Act Release No. 13894; and Investment Company Act Release No. 2814. It was also published in 24 Federal Register 271 and bears Federal Register Document No. 59-243.

in which costs are deducted for tax purposes in amounts greater than those used for financial statement purposes, then, unless corrected, there is a failure properly to match costs and revenues in the financial statements by the amount of the tax effect of the cost differential. To correct the resultant distortion in periodic net income after taxes, it is therefore necessary to charge income in earlier years with an amount equal to the tax reduction and to return this amount to income in subsequent years when the amount charged for financial statement purposes exceeds the amount deducted for tax purposes.³ It is our understanding that such deferred tax accounting is in accordance with generally accepted accounting principles.⁴

With specific reference to depreciation, since the total deduction allowed over the life of an asset is limited to its cost and hence is not affected by the method by which it is deducted from income, acceleration of tax deductions in earlier years results in deferring to later years the payment of taxes on

³ Since the deferral is made for the purpose of allocating to future periods the effect on income of the current tax reduction, it is not contemplated that the portion returned to income will exactly offset the increased tax to be paid in future years. The amount of additional taxes payable in future years may vary from the reduction obtained earlier because of changes in the tax rates or because of failure to earn taxable income corresponding to the tax reduction previously taken.

⁴ Accounting Research Bulletins issued by the Committee on Accounting Procedure of the American Institute of Certified Public Accountants: No. 42, November 1952; No. 43, June 1953, Chs. 9c and 10b; No. 44, October 1954; No. 44 (Revised), July 1958.

An exception to this practice is stated in para 8. of Accounting Research Bulletin No. 44 (Revised), which provides that:

"Many regulatory authorities permit recognition of deferred income taxes for accounting and/or rate-making purposes, whereas some do not. The committee believes that they should permit the recognition of deferred income taxes for both purposes. However, where charges for deferred income taxes are not allowed for rate-making purposes, accounting recognition need not be given to the deferment of taxes if it may reasonably be expected that increased future income taxes, resulting from the earlier deduction of declining-balance depreciation for income-tax purposes only, will be allowed in future rate determinations."

It is the understanding of this Commission that the exception recognizes the position of those regulatory agencies which permit public utilities to deduct only the actual taxes payable in a given year, and the Commission raises no question as to the propriety of the exception.

an amount equivalent to the cost differential.⁵ Because of the interrelationship between income taxes and depreciation, the Commission is of the view that in the earlier years the charge equivalent to the tax reduction should be treated either (1) as a provision for future taxes in the income statement with a corresponding credit in the balance sheet to a nonequity caption such as a deferred tax credit,⁶ or (2) as additional depreciation in the income statement with a corresponding addition to the accumulated provision for depreciation in the balance sheet.⁷ In the Commission's view it is improper to charge income with an item required for the proper determination of net income and concurrently to credit earned surplus.

A number of comments indicated that, should the Commission take the foregoing position, it should be limited to matters connected with depreciation and amortization or, if not so limited, any additional items embraced within this principle should be clearly specified. It is the Commission's view, however, that comparable recognition of tax deferment should be made in all cases in which there is a tax reduction resulting from deducting costs for tax purposes at faster rates than for financial statement purposes.⁸

⁵ Where there is no difference between the amount of cost deducted for income taxes and the amount deducted for financial statement purposes, such as where declining-balance depreciation is taken both for tax and financial statement purposes, there is, of course, no occasion for deferred tax accounting.

⁶ This would not prohibit companies from utilizing in financial statements filed with this Commission the balance sheet captions and classification of deferred taxes prescribed by the Federal Power Commission in its Orders Nos. 203 and 204, Dockets Nos. R-158 and R-159, respectively, issued May 29, 1958. Nor has there been called to the Commission's attention the provisions of any law of the United States or any rule or regulation thereunder prescribing methods of accounting which would prohibit any companies from following, in reports filed with us pursuant to the Securities Exchange Act of 1934, the balance sheet treatment set forth herein. See Section 13(b) of that Act.

⁷ In either case there should be an appropriate explanation with disclosure of the amounts involved.

⁸ This is, of course, subject to the general qualification under our rules that the amounts in question are material. The term "material," when used to qualify a requirement for the furnishing of information as to any subject, unless the context of a provision in a form otherwise requires, limits the information required to those matters as to which an average prudent investor ought reasonably to be informed before buying or selling the security registered. (See the rules and

The Committee on Accounting Procedure of the American Institute of Certified Public Accountants agrees with the position expressed above. Accounting Research Bulletin No. 44 (Revised) states, in connection with the deduction of depreciation for income tax purposes at a more rapid rate than for financial accounting purposes, that the accounting company should employ deferred tax accounting and that it is "alternatively appropriate, instead of crediting a deferred tax account, to recognize the related tax effect as additional amortization or depreciation applicable to such assets in recognition of the loss of future deductibility for income-tax purposes." A difference of opinion arose among certifying accountants whether the language of this bulletin permitted the deferred tax account to be classified as earned surplus restricted for future income taxes. To resolve the controversy, the Committee on Accounting Procedure sent a letter dated April 15, 1959, to all member of the Institute in which it clarified the bulletin on the point. The pertinent portion of the letter reads:

"Question has been raised with respect to the intent of the committee on accounting procedure in using the phrase 'a deferred tax account' in Accounting Research Bulletin No. 44 (revised), *Declining-balance Depreciation*, to indicate the account to be credited for the amount of the deferred income tax (see paragraphs 4 and 5).

"The committee used the phrase in its ordinary connotation of an account to be shown in the balance sheet as a liability or a deferred credit. A provision in recognition of the deferral of income taxes, being required for the proper determination of net income, should not at the same time result in a credit to earned surplus or to any other account included in the stockholders' equity section of the balance sheet."⁹

While some accounting firms that appeared before the Commission urged that it was appro-

priate to designate as a part of earned surplus the credit arising from deferred tax accounting despite the opinion of the Committee on Accounting Procedure, the Commission disagrees. Moreover, the fact that there may be some authoritative support for different methods of classifying this deferred tax account does not preclude the Commission from determining for the future the manner in which the item should be classified in financial statements filed with it. In fact, as enunciated by the Commission in Accounting Series Release No. 4, dated April 25, 1938, the question of authoritative support is pertinent only when the position of the Commission has not previously been published in official releases.¹⁰

Arguments have been advanced, particularly on behalf of public utility companies, to the effect that from analytical and rate-making viewpoints the treatment prescribed herein might have undesirable results upon investors and consumers. However, it is entirely appropriate that regulatory agencies treat the accumulated credit arising from deferred tax accounting in whatever manner they deem most relevant to their purposes.¹¹

Some of the comments on Release No. 4010 questioned the authority of the Commission to deal with the subject of this release. But these comments apparently fail to recognize that a

¹⁰ That release provided in pertinent part:

"In cases where there is a difference of opinion between the Commission and the registrant as to the proper principles of accounting to be followed, disclosure will be accepted in lieu of correction of the financial statements themselves only if the points involved are such that there is substantial authoritative support for the practices followed by the registrant and the position of the Commission has not previously been expressed in rules, regulations, or other official releases of the Commission, including the published opinions of its chief accountant."

¹¹ So far as this Commission is concerned, since it believes that classifying the item as a component part of common stock equity is misleading for financial statement purposes, it does not intend to consider the item as a part of common stock equity for analytical purposes, although it may give consideration to the item as one of a number of relevant factors in appraising the overall financial condition of a company. The Commission, of course, does not have jurisdiction over rate-making, although under the Public Utility Holding Company Act of 1935 it is concerned with the interests of consumers. Alleged adverse results as to investors and consumers are no different from those complained of whenever any requirement designed to assure financial stability is imposed.

regulations under certain of the pertinent Acts: 17 CFR 230.405; 17 CFR 240.-12b-2; 17 CFR 270.8b-2.)

⁹ It may be noted that 18 of the 21 members of the Committee approved the letter. The 3 who did not merely dissented to the issuance at that time of any letter interpreting the bulletin.

statement of administrative policy is merely an announcement of the manner in which the Commission intends to enforce the statutes which it administers. Publication of a statement of administrative policy such as this is in accord with long-established Commission practice expressed in Accounting Series Release No. 4, quoted above. Although the Commission is of the view that there is ample authority for it to adopt specific rules as to the form and content of financial statements filed with it with respect to the subject of this release,¹² it is, instead, hereby announcing that, since any requirement in the statutes it administers calling for the filing of financial statements contemplates that they not be misleading or inaccurate, the filing with it of such statements which do not conform to the policy expressed herein would require appropriate action to be taken by the Commission.¹³

¹² See, e.g., Section 19(a) and para. 25 and 26 of Schedule A of the Securities Act of 1933; Sections 12, 13, and 23 of the Securities Exchange Act of 1934; Sections 5(b)(2), 7(a), 10(a), 14, and 20(a) of the Public Utility Holding Company Act of 1935; and Sections 30 and 38 of the Investment Company Act of 1940.

¹³ For example, in connection with applications filed under Section 6(b) or declarations filed under Section 7 of the Public Utility Holding Company Act of 1935, where the financial

For the foregoing reasons, on and after the effective date of this statement of administrative policy, any financial statement filed with this Commission which designates as earned surplus (or its equivalent) or in any manner as a part of equity capital (even though accompanied by words of limitation such as "restricted" or "appropriated") the accumulated credit arising from accounting for reductions in income taxes resulting from deducting costs for income tax purposes at a more rapid rate than for financial statement purposes will be presumed by the Commission to be misleading or inaccurate despite disclosure contained in the certificate of the accountant or in footnotes to the statements, provided the amounts involved are material.

This statement of administrative policy shall become effective on April 30, 1960.

By the Commission.

ORVAL L. DuBOIS,
Secretary

statements do not conform to the policy expressed herein, the Commission would presumably condition any order granting the application or permitting the declaration to become effective so as to require that such financial statements do so conform.

RELEASE NO. 86

April 12, 1960

SECURITIES ACT OF 1933
Release No. 4206

SECURITIES EXCHANGE ACT OF 1934
Release No. 6233

HOLDING COMPANY ACT OF 1935
Release No. 14209

INVESTMENT COMPANY ACT OF 1940
Release No. 3010

Response to Comment on Statement of Administrative Policy regarding Balance Sheet Treatment of Credit Equivalent to Reduction in Income Taxes

The Securities and Exchange Commission today made public a letter sent by its Chief Accountant, Andrew Barr, to Mr. Carman G. Blough, Director of Research, American Institute of Certified Public Accountants, in response to his comment on this Commission's Statement of Administrative Policy Regarding Balance Sheet Treatment of Credit Equivalent to Reduction in In-

come Taxes published February 29, 1960. The text of the letter follows:

"The Commission has authorized me to respond to your letter in which you express concern over the wording of the last sentence in the first full paragraph on page 4 and the first sentence of the paragraph immediately follow-

ing it in Securities Act of 1933 Release No. 4191 (also identified as Securities Exchange Act of 1934 Release No. 6189, Holding Company Act Release No. 14173, Investment Company Act of 1940 Release No. 2977, and Accounting Series Release No. 85). The full paragraph to which you refer and the following sentence read as follows:

'A number of comments indicated that, should the Commission take the foregoing position, it should be limited to matters connected with depreciation and amortization or, if not so limited, any additional items embraced within this principle should be clearly specified. It is the Commission's view, however, that comparable recognition of tax deferment should be made in all cases in

which there is a tax reduction resulting from deducting costs for tax purposes at faster rates than for financial statement purposes. (Footnote omitted.)

'The Committee on Accounting Procedure of the American Institute of Certified Public Accountants agrees with the position expressed above.'

"It was not the Commission's intention by the publication of this release, stating an administrative policy regarding balance sheet treatment of the credit equivalent to the reduction in income taxes when deferred tax accounting is employed, to make mandatory the use of deferred tax accounting beyond the requirements of generally accepted accounting principles."

RELEASE NO. 87

January 17, 1961

In the Matter of Bolt and Shapiro, Theodore Bolt, and Bernard L. Shapiro. (See Release No. 82, p. 204.)

ORDER READMITTING ACCOUNTANT TO PRACTICE BEFORE THE COMMISSION

The Commission having on January 28, 1959, issued its Findings, Opinion and Order pursuant to Rule II(e) of the Commission's Rules of Practice (Accounting Series Release No. 82), denying to Theodore Bolt, formerly a partner in Bolt and Shapiro, a firm of certified public accountants, now dissolved, who was found to have engaged in unethical and improper professional conduct, the privilege of practicing before the Commission until he obtained the approval of the Commission;

Bolt having on November 18, 1960, filed a petition for reinstatement of his privilege of practicing before the Commission;

Petitioner having represented, among other things, that his professional and business reputation had not been impugned prior to the Commission's proceedings; that on the basis of the Commission's findings against him he was suspended from membership in the American Institute of Certified Public Accountants for a period of 6 months, which period of suspension has expired; that although he is no longer engaged in the

practice of public accounting, and has no intention of actively practicing as an accountant before the Commission, the issuance and continuance of the Commission's suspension Order of January 28, 1959, and the widespread publicity received by it have severely adversely affected his business and professional standing and the further continuance of such Order is not necessary or appropriate in the public interest;

The Commission having considered the matter, and being satisfied that under all the circumstances it would not be inconsistent with the public interest at this time to terminate its order denying petitioner the privilege of practicing before the Commission;

IT IS ORDERED that the petition of Theodore Bolt for reinstatement of his privilege of practicing before the Commission be, and it hereby is, granted.

By the Commission.

ORVAL L. DuBOIS,
Secretary.