

Full Disclosure System

The Full Disclosure System's goals are to:

- *foster investor confidence;*
- *provide investors with material information;*
- *improve the quality and timeliness of disclosure to investors;*
- *contribute to the maintenance of fair and orderly markets;*
- *reduce the costs of capital raising; and*
- *inhibit fraud in the public offering, trading, voting, and tendering of securities.*

The Division of Corporation Finance achieves these goals by reviewing the financial and non-financial disclosure made by companies in their periodic reports and transactional filings. The Division also achieves its goal by making and interpreting rules that facilitate and enhance corporate disclosure.

What We Did

- Monitored the annual reports of all Fortune 500 companies to identify information that may be unclear or conflict with accepted accounting principles or SEC rules, and completed reviews of the year-end financial disclosure of 2,570 reporting issuers and approximately 950 new issuers.
- Implemented the Commission's order under section 21(a) of the Securities Exchange Act of 1934 (Exchange Act) requiring chief executive officers

(CEOs) and chief financial officers (CFOs) of the 947 largest U.S. companies to certify past disclosure.

- Adopted amendments requiring certification of annual and quarterly reports by CEOs and CFOs.
 - Adopted amendments to accelerate the filing of quarterly and annual reports under the Exchange Act by certain domestic reporting companies.
 - Adopted rule and form amendments that require foreign private issuers and foreign governments to file electronically their securities documents through our Electronic Data Gathering, Analysis and Retrieval (EDGAR) system.
 - Adopted amendments to accelerate filing of Exchange Act section 16 beneficial ownership reports filed by officers, directors, and principal security holders.
 - Proposed amendments to increase current disclosure by requiring a company to file a current report on Form 8-K to disclose the occurrence of 11 new events including material impairments, write-offs, and restructuring charges.
 - Adopted amendments to improve the transparency of financial disclosure by requiring companies to disclose their critical accounting estimates and the initial adoption of accounting policies that have a material impact on their financial presentation.
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Review of Filings

The following table summarizes the principal filings reviewed during the last five years.

Full Disclosure Reviews					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Major Filing Reviews					
Securities Act filings					
Initial Public Offerings	1,320	1,010	1,350	745	610
Repeat Issuers	720	510	270	620	715
P/E Amdts. <u>a/</u>	28	10	10	25	15
Regulation A	81	65	70	50	30
Exchange Act					
Initial Registrations	338	680	1,015	400	310
Annual Report Reviews					
Full <u>b/</u>	1,527	1,375	595	880	1,220
Full Financial	997	960	550	1,400	1,440
Tender Offers (14D-1)	259	355	300	225	210
Going Private Schedules	115	180	115	145	90
Contested Proxy					
Solicitations	59	70	90	58	66
Proxy Statements					
Merger/Going Private	219	195	75	65	45
Others w/Financials	257	190	150	90	125
Reporting Issuer Reviews <u>c/</u>	2,828	2,550	1,535	2,400	2,570
New Issuer Reviews <u>d/</u>	1,739	1,755	2,435	1,195	950
Total Issuer Reviews	4,567	4,305	3,970	3,595	3,520

a/ Post-effective amendments with new financial statements.

b/ Includes annual reports reviewed in connection with the review of other filings that incorporated financial statements by reference.

c/ Includes companies subject to Exchange Act reporting whose financial statements were reviewed during the year.

d/ Includes reviews of Securities Act of 1933 registration statements and Exchange Act registrations by non-Exchange Act reporting companies. Includes reviews of Regulation A filings.

Companies filed registration statements covering \$2.0 trillion in proposed securities offerings during the year, approximately 13 percent less than the amount registered in 2001. With the continuing decline in corporate merger activity and initial filings by new companies, the Division again focused its resources on reviewing Exchange Act reports and away from transactional filings (Securities Act of 1933 registration statements and Exchange Act proxy statements). In fiscal 2001, we reviewed 1,595 transactional filings and 2,280 Exchange Act reports. During fiscal 2002, we reviewed 1,540 transaction filings, 3 percent less than last year, and 2,660 Exchange Act reports, nearly 17 percent more than last year.

Sarbanes-Oxley Act of 2002

The SEC began implementing the provisions of the Sarbanes-Oxley Act, which was adopted late in the fiscal year. The Act provides the SEC with additional significant review and rulemaking responsibilities, including the requirement to refine its review process in light of specified criteria and to review each reporting issuer at least once every three years. The Act also imposes new requirements on officers of domestic and foreign companies, expedites the filing of beneficial ownership reports, expands disclosure requirements of off-balance sheet transactions, and sets fixed time frames for a number of studies and rulemaking projects.

International Activities

Large numbers of foreign companies continued to access the United States public securities markets in 2002. During the year, approximately 70 foreign companies from 25 countries entered the U.S. public markets for the first time. At year-end, there were over 1,300 foreign companies from 59 countries filing reports with us. Public offerings filed by foreign companies in 2002 totaled over \$147 billion.

Recent Rulemaking, Interpretive, and Related Matters

Rulemaking is undertaken to protect investors, facilitate capital formation, improve and simplify disclosure, establish uniform requirements, and eliminate unnecessary regulation. The objective in rulemaking is to define regulatory requirements on a cost-effective basis. The SEC provides general interpretive and accounting advice through interpretive releases, staff legal bulletins, staff accounting bulletins, no-action and interpretive letters, the current issues outline, and responses to telephone inquiries.

Certification of Disclosure in Companies' Quarterly and Annual Reports

On August 28, 2002, the Commission adopted rules under the Exchange Act to require an issuer's principal executive officer and principal financial officer to certify the contents of the issuer's quarterly and annual reports.¹¹⁷ The rules, which implemented section 302 of the Sarbanes-Oxley Act, superseded the certification proposal included in our June 14, 2002 release.¹¹⁸

Acceleration of Periodic Report Filing

On September 5, 2002, the Commission adopted amendments originally proposed in April 2002 that would accelerate the filing of quarterly reports and annual reports under the Exchange Act by domestic reporting companies.¹¹⁹ The amendments shorten the filing deadlines for the affected companies from 45 to 30 calendar days after period-end for quarterly reports and from 90 to 60 calendar days after year-end for annual reports.

Accelerated Filing of Beneficial Ownership Reports

On August 27, 2002, the Commission adopted rule and form amendments to implement the accelerated filing deadline applicable to change of beneficial ownership reports. Officers,

directors, and principal security holders are required to file these reports under section 16(a) of the Exchange Act.¹²⁰ The amendments are intended to facilitate the statutory changes required by the Sarbanes-Oxley Act.

Mandated EDGAR Filing For Foreign Issuers

On May 14, 2002, the Commission adopted amendments that require foreign private issuers and foreign governments to file electronically their securities documents through our EDGAR system.¹²¹

Disclosure of Equity Compensation Plan Information

On December 21, 2001, the Commission adopted amendments that require companies to disclose, at least annually, information about the total number of securities that have been authorized for issuance under their equity compensation plans, regardless of whether or not security holders approved the plans.¹²² The amendments address investors' concerns about companies' increased use of stock options as compensation, the potential dilutive effect of these options, and the absence of information regarding plans adopted without shareholder approval.

Requirements for Arthur Andersen LLP Audit Clients

On March 18, 2002, the Commission adopted rules to assure a continuing and orderly flow of information to investors and the U.S. capital markets, and to minimize any potential disruptions occurring as a result of the Arthur Andersen LLP indictment.¹²³ The Commission also modified the requirements for inclusion of audited financial statements in Securities Act registration statements and in Trust Indenture Act of 1939 filings from registrants unable or electing not to have Andersen issue a manually signed audit report.

Additional Form 8-K Disclosure Requirements and Acceleration of Filing Date

On June 17, 2002, SEC staff proposed amendments to require a company to file a current report on Form 8-K to disclose the occurrence of 11 new extraordinary corporate events, including material impairments, write-offs, and restructuring charges.¹²⁴ The amendments also would accelerate the filing deadline for Form 8-K to require filing within two business days after the occurrence of an event requiring disclosure.

Disclosure in Management's Discussion and Analysis About the Application of Critical Accounting Policies

On May 10, 2002, the Commission proposed amendments to improve the transparency of financial disclosure by requiring companies to disclose their critical accounting estimates and the initial adoption of accounting policies that have a material impact on their financial presentations.¹²⁵

Commission Order

On June 27, 2002, the Commission issued an order under section 21(a) of the Exchange Act requiring the CEOs and CFOs of the 947 largest U.S. companies to certify their most recent annual reports and subsequent Exchange Act filings. SEC staff reviewed certifications and related filings to ensure compliance with the order. The staff also established a location on the Commission's website where investors could monitor and review certifications. In August and September 2002, there were over 628,000 total "hits" on this location, nearly 12 times the number of the next most popular page on the Commission's website.

Conferences

SEC/NASAA Conference Under Section 19(c) of the Securities Act

The SEC conducted the 19th Annual Federal/State Uniformity Conference in April 2002 in Washington, D.C. Approximately 60 Commission officials met with nearly 60 representatives of the North American Securities Administrators Association, Inc. to discuss methods of achieving greater uniformity in federal and state securities matters. After the conference, a final report summarizing the discussions was prepared and distributed to interested persons and participants.

SEC Government-Business Forum on Small Business Capital Formation

In September 2002, we conducted the 21st Annual Government-Business Forum on Small Business Capital Formation in Washington, D.C. This forum is the only government-sponsored national gathering related to the securities industry that is geared toward small business. It offers small businesses the opportunity to inform government officials how the laws, rules, and regulations affect their ability to raise capital.