PETITION TO US SECURITIES AND EXCHANGE COMMISSION FOR ISSUANCE OF INTERPRETIVE RELEASE

December 31, 2001

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street. N.W.
Washington, DC 20549-0609

Re: Petition for Issuance of Interpretive Release

Dear Mr. Katz:

The accounting firms of Arthur Andersen LLP, Deloitte and Touche LLP, Ernst & Young LLP, KPMG LLP, and PricewaterhouseCoopers LLP, with the endorsement of the American Institute of Certified Public Accountants, hereby jointly petition the Commission to issue an interpretive release that provides guidance that can be implemented by public companies in preparing disclosures for inclusion in annual reports on Form 10-K and other reports filed after the date of the issuance of the release.[1] The objective of the interpretive guidance is to facilitate enhanced disclosures pursuant to the requirements of Regulation S-K Item 303, Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A). In particular, a suggested interpretive release, which is included as Appendix A to this letter, would address three areas in which we believe expanded disclosure is needed to improve the transparency of financial reporting. Those three areas are disclosures about: (1) liquidity and capital resources including off-balance sheet arrangements; (2) certain trading activities that include non-exchange traded contracts accounted for at fair value; and (3) relationships and transactions on terms that would not be available from clearly independent third parties.

We also are considering a petition to the Commission to follow the issuance of this interpretive guidance with proposed rulemaking to establish minimum disclosure requirements in these three areas. The objective of such rulemaking would be to promote more consistency, comparability, and transparency in registrant filings. However, in view

[1] On December 4, 2001 we issued a press release to announce our commitment to developing disclosure recommendations to be made to the Securities and Exchange Commission. This petition to issue an interpretive release containing the recommendations set forth in Appendix A is presented consistent with the statements in that press release.

of the proximity of this action to the end of the fiscal year and the need to take timely action in order improve MD&A disclosures in annual reports on Form 10-K for 2001, we believe that an interpretive release that provides immediate guidance will result in improvements in disclosures while the Commission considers a further course of rulemaking.

Background

Appendix A presents in the format of a proposed Commission interpretive release our proposal to encourage public companies to take immediate steps to improve their disclosures in three critical areas. The release relies on existing disclosure requirements of MD&A. The existing requirements of MD&A are intentionally broad and flexible to permit registrants to meet the requirements for disclosure in a manner that is customized to each registrant's circumstances. The flexibility in the rule was intended to elicit high quality and highly informative disclosure.

While many registrants provide high quality, transparent disclosures, many other public companies provide boilerplate or very high-level disclosures that provide little or no meaningful information. The Commission previously identified this issue in 1989 and issued Financial Reporting Release No. 36 as interpretive guidance on compliance with MD&A. It is interesting to note that the 1989 interpretive release was a response, at least in part, to an earlier initiative on the part of the national accounting firms. FRR 36 relates the history of its issuance noting that the managing partners of the national accounting firms recommended increased risk disclosure separate from MD&A and subject to audit coverage. After considerable study the Commission concluded that the risk disclosure recommended by the firms was not needed but did conclude that interpretive guidance concerning MD&A was warranted. The firms once again are recommending enhanced disclosures to provide greater transparency concerning certain risks that affect public companies.

The proposed interpretive release recommends that registrants consider enhanced disclosures in three areas as described more fully below.

Liquidity and Capital Resources Including Off-Balance Sheet Arrangements

The proposed interpretive release directs registrants to consider the need to provide disclosures about events and circumstances that could affect liquidity and capital resources. The proposal suggests that consideration should be given to disclosing provisions of guarantees, commitments, lease and debt agreements, and other agreements that could trigger adverse changes in the registrant's credit rating, earnings, cash flows, or stock price, including requirements to perform under standby agreements.

The proposed interpretive guidance suggests disclosure should be provided about off-balance sheet arrangements, including a description of the business purpose of such arrangements and key terms and conditions that govern the arrangement between the registrant and entities used to achieve off-balance sheet accounting. A key recommendation in this section is that registrants consider providing in a single location, and preferably in a suggested tabular form, summaries of (1) contractual cash obligations, such as long term debt and lease obligations, and (2) other commercial commitments such as guarantees and standby letters of credit. We believe that a single location summary of contractual and commercial obligations and commitments will enable investors and other users of financial statements to more easily observe and understand the registrant's liquidity and capital resources including timing and amounts of contractual and potential demands on liquidity and capital resources.

Certain Trading Activities That Include Non-Exchange Traded Contracts Accounted for at Fair Value

The proposed interpretive guidance recommends that registrants that are engaged to a material extent in (a) energy trading activities, (b) weather trading activities, or (c) non-exchange traded commodity trading contracts that are marked to fair value through earnings and are part of analogous trading activities should consider providing statistical and other information about these business activities and transactions, as well as any contracts that are derivatives involving the same commodities that are part of trading activities where any of the three trading categories comprise a significant part of the registrant's business. The proposal suggests registrants should consider providing information about these trading activities, contracts and modeling methodologies, assumptions, variables and inputs, along with explanation of the different outcomes possible under different circumstances or measurement methods. The suggested disclosures include disaggregated information about changes in fair value of contracts that were recognized through earnings, distinguishing between realized and unrealized changes in fair value and identification of the extent to which changes in fair value resulted from changes in fair value modeling methodologies versus other changes in fair value. The proposed interpretive release also recommends tabular disclosure of the amounts of fair values at the latest balance sheet date grouped and disclosed based on whether fair value was determined from quoted prices, external source data, or internal modeling and further grouped by contract maturity date.

Disclosures About Relationships And Transactions With Persons Or Entities That Are Able To Negotiate Transactions On Terms That Would Not Be Available From Clearly Independent Third Parties

The proposed interpretive release observes that although both generally accepted accounting principles and the Commission's rules require disclosure about related parties, information about related parties and other parties that are not within the definition of "related parties," such as entities that are able to negotiate transactions on terms that would not be available from clearly independent third parties, may need further disclosure to explain the importance of these relationships and transactions to reported financial position and results of operations.

The proposed interpretive guidance suggests that disclosure about related parties and other parties that are not clearly independent, and that are able to negotiate transactions on terms that are not available from other clearly independent third parties, should include a description of the elements of the transactions that are necessary for an understanding of their business purpose and economic substance, their effects on the financial statements, and the special risks or contingencies arising from the transactions. Suggested disclosures include the business purpose of the arrangement, how transaction prices were determined by the parties, and if disclosures represent that transactions have been evaluated for fairness, a description of how the evaluation was made.

Conclusion

The proposed interpretive release is a package of comprehensive disclosures we believe has merit in addressing certain issues that recently have resulted in impaired investor confidence in our financial reporting system. As we have researched the issues addressed by the release, we have considered carefully the views of those collectively within our firms that are most heavily involved with clients in the affected industries. We have received guidance from our industry specialists as to the usefulness of these potential disclosures and believe we have included only disclosure requirements that add value to the total mix of investor information.

There are compelling reasons for the Commission to act quickly to enhance transparency in registrant filings under the federal securities laws. Therefore, we respectfully request that the Commission issue the document included in Appendix A as an interpretive release as soon as possible

Please feel free to call on any of us for any assistance we may provide toward ensuring the swift action needed to protect investors.

Respectfully submitted,

Arthur Andersen LLP

Deloitte and Touche LLP

Ernst & Young LLP

KPMG LLP

PricewaterhouseCoopers LLP

American Institute of Certified Public Accountants

Attachment – Appendix A – Proposed Interpretive Release

Cc: Harvey L. Pitt, Chairman
Robert K. Herdman, Chief Accountant