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Dated: December 12, 2001.

David Louis Gamberoni,
Technical Coordinator, Office of the
Secretary.

[FR Doc. 01-31160 Filed 12-13-01; 2:47 pm]

BILLING CODE 7590-01-M

POSTAL SERVICE BOARD OF GOVERNORS

Sunshine Act Meeting; Notification of Item Added to Meeting Agenda

DATE OF MEETING: December 3, 2001.

STATUS: Closed.

PREVIOUS ANNOUNCEMENT: 66 FR 59035, November 26, 2001.

ADDITION: Rate Case R2001-1.

At its meeting on December 3, 2001, the Board of Governors of the United States Postal Service voted unanimously to add this item to the agenda of its closed meeting and that no earlier announcement was possible. The General Counsel of the United States Postal Service certified that in her opinion discussion of this item could be properly closed to public observation.

CONTACT PERSON FOR MORE INFORMATION: David G. Hunter, Secretary of the Board, U.S. Postal Service, 475 L'Enfant Plaza, SW., Washington, DC.

David G. Hunter,
Secretary.

[FR Doc. 01-31169 Filed 12-13-01; 2:47 pm]

BILLING CODE 7710-12-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25316; 812-12696]

Blue Cross and Blue Shield of Kansas, Inc.; Notice of Application

December 11, 2001.

AGENCY: Securities and Exchange Commission ("Commission").

ACTION: Notice of an application for an order under sections 6(c) and 6(e) of the Investment Company Act of 1940 (the "Act") exempting an escrow account established by the applicant from all provisions of the Act, except section 9 and sections 36 through 53 of the Act,

and the rules and regulations under those sections.

SUMMARY OF APPLICATION: Applicant requests an order on behalf of an escrow account (the "Escrow Account") to be established in connection with applicant's conversion to a stock life insurance company and its subsequent acquisition by Anthem Insurance Companies, Inc. ("Anthem"). The Escrow Account will hold a portion of the cash consideration from the sale pending the resolution of a specified litigation matter involving applicant. The order would exempt the Escrow Account from certain provisions of the Act and the rules and regulations under those provisions.

Applicant: Blue Cross and Blue Shield of Kansas, Inc. (the "Company").

Filing Date: The application was filed on November 23, 2001 and amended on December 10, 2001.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on January 7, 2002, and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission's Secretary.

ADDRESSES: Secretary, Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Applicant: Kenneth J. Berman, Debevoise & Plimpton, 555 13th Street, NW., Washington, DC 20004.

FOR FURTHER INFORMATION CONTACT: Jaea F. Hahn, Senior Counsel, at (202) 942-0614, or Nadya B. Roytblat, Assistant Director, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549-0102 (tel. 202-942-8090).

Applicant's Representations

1. The Company is a Kansas mutual life insurance company that proposes to convert to a stock life insurance

company (the "Conversion") pursuant to a plan of conversion (the "Plan") in accordance with Kansas law. As a mutual life insurance company, the Company has no authorized, issued or outstanding capital stock. The policyholders of the Company, through the purchase of insurance policies and contracts, acquire insurance coverage and "Membership Interests" which consist principally of the right to vote in the election of directors of the Company and the right to share in any residual value of the Company if the Company were to undergo liquidation in the future.

2. Pursuant to an Alliance Agreement between the Company and Anthem, an Indiana stock insurance company (the "Alliance Agreement"), Anthem or an affiliate of Anthem will acquire the Company upon the Company's Conversion (the "Acquisition"). On the date of effectiveness of the Conversion and the closing of the Acquisition (the "Conversion Date"), the Membership Interests of the Company policyholders will be extinguished, the Company's policyholders eligible to vote and receive consideration in the Conversion ("Eligible Policyholders") will be entitled to receive consideration as provided in the Alliance Agreement and the Plan, and the Company will become a direct or indirect wholly-owned subsidiary of Anthem.

3. The Company's board of directors has adopted the Plan. The Plan has been submitted to the Commissioner of Insurance of the State of Kansas (the "Commissioner") for approval. Article 40 of Chapter 40 of the Kansas Statutes Annotated (the "Kansas Conversion Law") requires the Commissioner to hold a public hearing at which the Company's policyholders would have the right to appear and be heard. The Commissioner must approve the Plan if the Commissioner finds that (a) the Plan is fair and equitable to policyholders, (b) the Plan complies with the provisions of the Kansas Conversion Law, (c) the Plan does not unjustly enrich any director, officer, agent or employee of the Company and (d) the Company would meet minimum requirements to be issued a certificate of authority by the Commissioner to transact business in Kansas and the continued operations of the Company would not be hazardous to existing or future policyholders or the public.

4. Eligible Policyholders also must approve the Plan, including the establishment of the Escrow Account. As required by the Kansas Conversion Law, Eligible Policyholders will have received from the Company a comprehensive information booklet

describing the Plan, including all material aspects of the Escrow Account, at least 30 days prior to a special meeting to be held on January 11, 2002 at which the Eligible Policyholders will be required to vote on the Plan. The information booklet was reviewed and approved by the staff of the Kansas Insurance Department.

5. Under the proposed transaction, Eligible Policyholders will be entitled to receive \$142 million of the \$190 million purchase price paid by Anthem for the stock of the Company upon the Conversion, with the remaining \$48 million of the purchase price deposited into the Escrow Account on the Conversion Date. The Escrow Account will be established to address issues arising from a subpoena, dated February 28, 2001, that the Company received from the Office of the Inspector General, U.S. Department of Health and Human Services (the "Contingent Litigation Matter").¹ The amounts held in the Escrow Account will be used to pay all costs, expenses and liabilities related to the Contingent Litigation Matter, pay related taxes which might become payable, and pay all costs and expenses of the Escrow Account. Any remaining amounts will be distributed to Eligible Policyholders following final resolution of the Contingent Litigation Matter.

6. The Escrow Account will be a separately designated investment account established on or prior to the Conversion Date pursuant to an escrow agreement (the "Escrow Agreement") to be entered into among the Company, Anthem and an escrow agent (the "Escrow Agent"). The Escrow Agent will be a bank, savings and loan association or trust company. The sole purpose of the Escrow Account will be to liquidate its assets and distribute the income to the Eligible Policyholders in as prompt and orderly a fashion as possible following the resolution of the Contingent Litigation Matter. Amounts held in the Escrow Account will be invested by the Escrow Agent solely in obligations of, or obligations fully guaranteed as to timely payment of principal and interest by, the United States of America or an agency or instrumentality thereof with a maturity date of one year or less from the date of the investment ("Government Securities"). The Escrow Agent will not have the authority to borrow funds from, or on behalf of the Escrow Account, sell securities to, or acquire securities from, the Escrow Account, or,

acquire any other assets except for Government Securities. The rights of the Eligible Policyholders to amounts held in the Escrow Account will not be represented by any form of certificate or instrument and will not be transferable or assignable except by will, the laws of intestacy or by other operation of law. The Commissioner will retain regulatory oversight over the Escrow Account, including the investment and distribution of the assets held in the Escrow Account to ensure that the interests of Eligible Policyholders are protected.

7. The Escrow Account will continue until the Contingent Litigation Matter has been finally disposed of by binding settlement, court order or otherwise, all tax amounts have been finally determined, all amounts that are reasonably recoverable from any insurer in respect of the Contingent Litigation Matter are recovered, and all amounts in the Escrow Account have been paid or distributed by the Escrow Agent in accordance with the Escrow Agreement and the Alliance Agreement. Any amounts remaining in the Escrow Account will be distributed to Eligible Policyholders in accordance with the distribution principles set forth in the Plan.

Applicant's Legal Analysis

1. Section 3(a)(1)(A) of the Act defines the term "investment company" to include an issuer that is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting or trading in securities. Because the assets held in the Escrow Account will be invested exclusively in Government Securities and the Escrow's sole source of income will be investment income attributable to such securities, applicant states that it is possible that the Escrow Account could be deemed to be an investment company as defined in section 3(a)(1)(A).

2. Section 6(c) of the Act provides, in relevant part, that the Commission may exempt any person or persons, or any transaction or transactions, from any provisions of the Act if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

3. Section 7 of the Act generally prohibits investment companies that are not registered under section 8 of the Act from selling or redeeming their

securities.² Section 6(e) of the Act provides that, in connection with any order exempting an investment company from any provision of section 7, the Commission may specify that certain provisions of the Act will be applicable to the company and other persons dealing with the company as though the company were registered under the Act. Applicant contends that the costs involved in registering and operating the Escrow Account under the Act are not necessary to protect the interests of the Eligible Policyholders and would reduce the amount of cash consideration actually distributed to the Eligible Policyholders. Because of the limited nature of the Escrow Account's activities, the Company believes that most provisions of the Act are not relevant to the Escrow Account. The Escrow Account is being organized for a limited purpose, will have a limited life, and will be subject to the Commissioner's oversight. Moreover, management of the Escrow Account's assets by the Escrow Agent will be severely restricted. Accordingly, applicant states that the requested order meets the requirements of section 6(c) of the Act.

Applicant's Conditions

Applicant agrees that any order granting the requested relief shall be subject to the following conditions:

1. The Escrow Account will not hold itself out as being an investment company, but instead will hold itself out as an escrow account in the process of liquidating and distributing its assets to the Eligible Policyholders.

2. The Escrow Account will be limited to making temporary investments in Government Securities.

3. The Escrow Account will terminate, in accordance with the terms of the Escrow Agreement, upon final disposition of the Contingent Litigation Matter by binding settlement, court order or otherwise, final determination of certain tax matters, reasonable recovery from any insurer of costs associated with the Contingent Litigation Matter and distribution of all amounts in the Escrow Account by the Escrow Agent.

² Applicant notes that the last sentence of section 7(b) of the Act provides that the broad injunction against actions by unregistered investment companies contained in section 7 of the Act does not apply to "transactions of an investment company which are merely incident to its dissolution." Applicant states that due to the nature of the Contingent Litigation Matter, it is likely that the life of the Escrow Account may need to extend beyond three years and that applicant therefore may be unable to rely on this provision in section 7(b).

¹ The subpoena seek documents in connection with an investigation of possible improper claims against Medicare pursuant to 5 U.S.C. App. 3 Section 6(a)(4).

For the Commission, by the Division of Investment Management, under delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 01-30977 Filed 12-14-01; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33-8040; 34-45149; FR-60]

Accounting Policies; Cautionary Advice Regarding Disclosure

AGENCY: Securities and Exchange Commission.

ACTION: Cautionary advice regarding disclosure about critical accounting policies.

SUMMARY: The Securities and Exchange Commission is issuing a statement regarding the selection and disclosure by public companies of critical accounting policies and practices.

FOR FURTHER INFORMATION CONTACT: Robert A. Bayless, Special Assistant to the Chief Accountant, 202-942-4400.

SUPPLEMENTARY INFORMATION: As public companies undertake to prepare and file required annual reports with us, we wish to remind management, auditors, audit committees, and their advisors that the selection and application of the company's accounting policies must be appropriately reasoned. They should be aware also that investors increasingly demand full transparency of accounting policies and their effects.

Reported financial position and results often imply a degree of precision, continuity and certainty that can be belied by rapid changes in the financial and operating environment that produced those measures. As a result, even a technically accurate application of generally accepted accounting principles ("GAAP") may nonetheless fail to communicate important information if it is not accompanied by appropriate and clear analytic disclosures to facilitate an investor's understanding of the company's financial status, and the possibility, likelihood and implication of changes in the financial and operating status.

Of course, public companies should be mindful of existing disclosure requirements in GAAP and our rules. Accounting standards require information in financial statements about the accounting principles and methods used and the risks and uncertainties inherent in significant

estimates.¹ Our rules governing Management's Discussion and Analysis ("MD&A") currently require disclosure about trends, events or uncertainties known to management that would have a material impact on reported financial information.²

We have observed that disclosure responsive to these requirements could be enhanced. For example, environmental and operational trends, events and uncertainties typically are identified in MD&A, but the implications of those uncertainties for the methods, assumptions and estimates used for recurring and pervasive accounting measurements are not always addressed. Communication between investors and public companies could be improved if management explained in MD&A the interplay of specific uncertainties with accounting measurements in the financial statements. We intend to consider new rules during the coming year to elicit more precise disclosures about the accounting policies that management believes are most "critical"—that is, they are both most important to the portrayal of the company's financial condition and results, and they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Even before new rules are considered, however, we believe it is appropriate to alert companies to the need for greater investor awareness of the sensitivity of financial statements to the methods, assumptions, and estimates underlying their preparation. We encourage public companies to include in their MD&A this year full explanations, in plain English, of their "critical accounting policies," the judgments and uncertainties affecting the application of those policies, and the likelihood that materially different amounts would be reported under different conditions or using different assumptions. The

¹ See, e.g., Accounting Principles Board Opinion No. 22, "Disclosure of Accounting Policies" (Apr. 1972); AICPA Statement of Position No. 94-6, "Disclosure of Certain Significant Risks and Uncertainties" (Dec. 1994).

² The underlying purpose of MD&A is to provide investors with "information that the registrant believes to be necessary to an understanding of its financial condition, changes in financial condition and results of operations." Item 303(a) of Regulation S-K [17 CFR 229.303(a)]. As we have previously stated, "[i]t is the responsibility of management [in MD&A] to identify and address those key variables and other qualitative and quantitative factors which are peculiar to and necessary for an understanding and evaluation of the company." Securities Act Rel. No. 6835 (May 18, 1989) [54 FR 22427] (quoting Securities Act Rel. No. 6349 (Sept. 28, 1981) [not published in the **Federal Register**]).

objective of this disclosure is consistent with the objective of MD&A.

Investors may lose confidence in a company's management and financial statements if sudden changes in its financial condition and results occur, but were not preceded by disclosures about the susceptibility of reported amounts to change, including rapid change. To minimize such a loss of confidence, we are alerting public companies to the importance of employing a disclosure regimen along the following lines:

1. Each Company's Management and Auditor Should Bring Particular Focus to the Evaluation of the Critical Accounting Policies Used in the Financial Statements

As part of the normal audit process, auditors must obtain an understanding of management's judgments in selecting and applying accounting principles and methods. Special attention to the most critical accounting policies will enhance the effectiveness of this process. Management should be able to defend the quality and reasonableness of the most critical policies, and auditors should satisfy themselves thoroughly regarding their selection, application and disclosure.

2. Management Should Ensure That Disclosure in MD&A Is Balanced and Fully Responsive

To enhance investor understanding of the financial statements, companies are encouraged to explain in MD&A the effects of the critical accounting policies applied, the judgments made in their application, and the likelihood of materially different reported results if different assumptions or conditions were to prevail.

3. Prior To Finalizing and Filing Annual Reports, Audit Committees Should Review the Selection, Application and Disclosure of Critical Accounting Policies

Consistent with auditing standards, audit committees should be apprised of the evaluative criteria used by management in their selection of the accounting principles and methods.³

³ See Codification of Statements on Auditing Standards, AU § 380, Communication with Audit Committees or Others with Equivalent Authority and Responsibility ("SAS 61"). SAS 61 requires independent auditors to communicate certain matters related to the conduct of an audit to those who have responsibility for oversight of the financial reporting process, specifically the audit committee. Among the matters to be communicated to the audit committee are: (1) Methods used to account for significant unusual transactions; (2) the effect of significant accounting policies in