SEC Weighs Wide Review Of Write-Offs
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The Securities and Exchange Commission, continuing its crusade against what it sees as abusive write-off practices, recently notified 150 publicly traded companies that it may review certain 1998 earnings charges for potential accounting violations.

A review would be the agency's most extensive of this type to date and could result in earnings restatements by dozens of companies.

In a letter sent last week to the American Institute of Certified Public Accountants, Robert Bayless, the SEC's chief accountant for its division of corporation finance, said the agency's possible reviews would apply to earnings charges recorded in year-end financial statements for "asset write-downs, restructuring activities, and acquired in-process research and development."

Mr. Bayless said the 150 companies "were selected based on news reports of significant charges they had taken in 1998." The agency declined to name the companies it notified.

Mr. Bayless said that the SEC also recently notified "a few bank-holding companies" that the agency may review their loan-loss provisions and loan-loss allowances in their 1998 annual reports for possible accounting infractions. Banks are allowed to record these items when they experience credit losses.

The possible SEC reviews are the latest sign that the agency has intensified its campaign against what it sees as abusive write-offs designed to boost earnings. The agency has expressed concern in recent months that many companies are "managing" earnings to meet analysts' expectations and avoid a big drop in their stock price.

Already, the SEC's division of corporation finance has appointed a task force to scrutinize potential earnings-management problems. The agency also is looking at what it sees as increasing abuses in how companies write off the cost of continuing research and development following a merger.

Among the SEC's chief concerns: inappropriate disclosures for restructuring charges. In general, restructuring charges can only be taken if companies disclose detailed "exit plans" with specifics about, for example, factory shutdowns and employee layoffs.

Characterizing the documentation that the SEC has seen for such write-offs as "pretty weak," Mr. Bayless said in an interview that the SEC finds it "difficult to see how auditors could audit the documentation." In addition, Mr. Bayless said some companies have included inappropriate items in their restructuring charges, such as costs related to fixing year-2000 computer bugs, audit fees and compensation for employees who aren't laid off.

"Companies apparently have been chucking everything but the kitchen sink into these charges," said Jack Ciesielski, an accounting analyst in Baltimore.

Under accounting rules, companies can write down costs for certain impaired assets. Companies can also write off restructuring charges when they exit a business activity, such as the costs of shutting down a plant or discontinuing a product line.

Later this year, the SEC plans to issue a staff-accounting bulletin that will tighten accounting rules for restructuring charges. The SEC may require companies to disclose more evidence in their annual reports of their "exit plans."

The agency has requested more money from Congress for increased staffing at the divisions of corporation finance and enforcement to handle the earnings-management investigation.