



SECURITIES AND  
EXCHANGE COMMISSION

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Over the past several months the Commission has received a number of requests to either delay the effective date of the rules on disclosure of replacement cost or to receive that data confidentially for study and evaluation of the methods used in preparation and of the usefulness of the data. The Commission today announced its intention to proceed with its replacement cost regulation without any modification to the regulation's effective date or manner of reporting.

Because of the concern expressed, the Commission retained three consultants to consider various aspects of the replacement cost regulation.

The three consultants--Sidney Davidson, a professor at the Graduate School of Business of the University of Chicago, Carl L. Nelson, a professor at the Graduate School of Business of Columbia University, and W. Thomas Porter, a partner in the public accounting firm of Touche Ross & Co.--issued a joint report to the Commission which stated:

"At your request we have considered various aspects of the preparation by business firms for reporting replacement cost data as required by Accounting Series Release No. 190. Each of us consulted on an informal basis with various individuals and groups concerned with the preparation of the replacement cost data. Most of the corporations required to report replacement cost data have made substantial progress and plan to complete their replacement cost studies on schedule. Each of us has been told of troublesome specific problems and there is a general concern about the lack of precision in the replacement cost data, but this is to be expected in a substantially new program involving many judgmental features.

"In our investigations we have not discovered any general problems or problems in specific industries that are serious enough to lead us to recommend a delay in or a negation of the reporting requirements spelled out in ASR 190."

The report of the consultants affirmed the Commission's belief that most registrants affected by the replacement cost regulation will be able to meet the regulation's effective date and no change is necessary.

Several commentators have suggested that the replacement cost data be filed with the Commission on a confidential basis. Some have suggested that the confidential data be studied by the staff for a year, additional implementation guidelines issued, and disclosure commence with 1977 financial statements. Others have suggested that the Commission withhold disclosure of the confidential data until a particular date, for example, June 1 for calendar year companies, at which time all replacement cost data would be made available to the public simultaneously. The former suggestion flows from the belief that the 1976 data will lack comparability; the latter suggestion flows from the belief that companies first disclosing replacement cost data will suffer an adverse market reaction.

At the time the Commission adopted the replacement cost regulation, it noted that a certain lack of comparability may exist; however, the Commission believed then as it believes now that a certain degree of noncomparability does not warrant delay in disclosing replacement cost data.

The Commission has carefully considered the recommendation for simultaneous release but has concluded that the practical and legal impediments to such a plan outweigh any possible benefit that might be derived from its adoption. Accordingly, the Commission has determined that there should be no delay or separate filing with respect to replacement cost data. These filings by certain large companies will include replacement cost data in the notes to their financial statements for periods ending on or after December 25, 1976.

The Commission remains of the belief that replacement cost data provide important and useful information to investors. The Commission will, of course, closely monitor the disclosures which will be made during the first year of the rule. The Commission encourages those who are subject to the Commission's replacement cost rule and those who use the data furnished pursuant to that rule to provide the Commission with the benefit of their experience in the coming year.