



**SECURITIES AND
EXCHANGE COMMISSION**

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Opening Statement of
The Honorable Harold M. Williams, Chairman
Securities and Exchange Commission

at the

Commission's Consideration of Whether to Delete Its
Replacement Cost Rule

The Commission will today consider whether to delete its replacement cost rule once the disclosure requirements of Statement of Financial Accounting Standards No. 33, "Financial Reporting and Changing Prices," are fully effective.

At no time in recent history have the effects of inflation been of greater concern to the American people than today. The decade of the 1970s has been characterized by rates of inflation far above historical norms, at times -- such as the present -- exceeding 10 percent annually. The specific impact on many companies and industries has been even steeper. Although there has been much discussion of the limitations of the historical-cost accounting model in such periods of rising prices, specific attempts to deal with the problem have been few and coolly received.

In March 1976, the Commission issued Accounting Series Release No. 190 which announced the adoption of a rule requiring certain large, publicly-held companies to disclose replacement cost data. The Commission at that time stated its hope that the rule would encourage meaningful experimentation with various approaches to providing such

information, and that the process would assist the Financial Accounting Standards Board in addressing the broad conceptual and practical issues involved. At least as to issuer experimentation, however, that belief proved to be ill-founded. Meaningful experimentation did not follow, and few companies included the replacement cost disclosures in their annual reports to shareholders.

Earlier this month, however, the Financial Accounting Standards Board issued, as part of the measurement phase of its conceptual framework project, its Statement of Financial Accounting Standards No. 33. That Statement is in response to the acknowledged need to augment financial reports by providing more information about the effects of price changes on the assets and operations of a business. Statement No. 33 requires certain companies to disclose, as supplemental information, certain effects of general price level and specific price changes.

The FASB's Statement is more comprehensive than the Commission's replacement cost rule, in that it requires information on both a constant-dollar and a current-cost basis. Because this data will be more comprehensive and widely disseminated than the ASR 190 disclosures, it is

expected to be informative to a wider body of users, to be of additional use to financial analysts, and to engender greater general concern for and understanding of the effects of changing prices on business enterprise.

The FASB's Statement is effective for fiscal years ending on or after December 25, 1979. However, information on a current-cost basis will not be required until annual reports for fiscal years ending on or after December 25, 1980. Since the Statement allows a one-year delay for current-cost disclosures, the Commission this morning will consider continuing its replacement cost rule in effect for fiscal years ending on or before December 24, 1980. However, the Commission will also consider an automatic waiver of the replacement cost requirements for those registrants electing voluntarily to implement fully the provisions of the FASB's Statement No. 33 in their annual reports for 1979.

Because of the nature of the information regarding the effects of changing prices, and a desire to again encourage meaningful experimentation, the Commission will also consider extending the safe harbor rule that now exists for disclosure of replacement cost data to the

Statement No. 33 disclosures included in reports and other filings made with the Commission.

Statement No. 33 represents significant progress by the FASB and private sector in developing meaningful solutions to the problem of communicating the effects of changing prices. The Board has announced, moreover, that it will continue its efforts to resolve the special problems which arise in the application of the current-cost requirements to unprocessed natural resources and income-producing real estate.

The FASB states, in paragraph 14 of the Statement, that it makes no pretense of having solved all of the implementation problems, and that meaningful experimentation within the guidelines of its pronouncement is needed. I concur with both those assessments.

Although some persons have been quick to criticize the complexity of the new pronouncement and the possible confusion that may result from use of various measurement concepts, accounting for changing prices continues to be an appropriate area for experimentation. I commend the FASB for its leadership in this vital area, and I urge the business community to seize upon this opportunity for

communicating the effects of inflation on corporate performance and to give careful consideration to the FASB's call for experimentation. Also, I would point to the Statement's requirement for a narrative explanation of the supplemental data and its significance in the company's individual circumstances. A substantive response, particularly in the management's discussion and analysis, can help to overcome what has often been a distorted picture of the economic reality of corporate earnings.