

Statement of Financial Accounting Standards No. 54

Note: This Statement has been completely superseded

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Financial Reporting and Changing Prices:
Investment Companies

(an amendment of FASB Statement No. 33)

January 1982



Financial Accounting Standards Board
of the Financial Accounting Foundation
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Statement of Financial Accounting Standards No. 54

Financial Reporting and Changing Prices:

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an amendment of FASB Statement No. 33

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FAS 54: Financial Reporting and Changing Prices: Investment Companies

an amendment of FASB Statement No. 33

FAS 54 Summary

This Statement amends FASB Statement No. 33, *Financial Reporting and Changing Prices*, to eliminate the requirement that investment companies disclose supplemental information adjusted for effects of changing prices.

INTRODUCTION AND BACKGROUND INFORMATION

1. FASB Statement No. 33, *Financial Reporting and Changing Prices*, establishes standards for reporting certain effects of price changes on business enterprises. Statement 33 applies to publicly held business enterprises that have, at the beginning of the fiscal year for which financial statements are being presented, either of the following characteristics:
 - a. Inventory and property, plant, and equipment amounting in the aggregate to more than \$125 million
 - b. Total assets amounting to more than \$1 billion
2. Several representatives of the investment company industry met with the FASB staff and with the Board to discuss their concerns about the Statement 33 requirements as they apply to investment companies. Based on discussions with the industry representatives and others on the subject, the Board concluded that the information required to be disclosed by Statement 33 in part is not relevant for investment companies and in part is already provided in their primary financial statements. The rest of the required information can be determined readily by readers of those financial statements. Accordingly, the Board concluded that investment companies need not provide the supplemental information about the effects of changing prices called for by Statement 33.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

Amendment to FASB Statement No. 33

3. The first sentence of paragraph 23 of Statement 33 is amended to read:

The requirements of this Statement apply to public enterprises, except for investment companies as defined in Section 3 of the Investment Company Act of 1940, as amended, that prepare their primary financial statements...

Effective Date and Transition

4. This Statement shall be effective on January 27, 1982, retroactive to fiscal years ending on or after December 25, 1979.

**The provisions of this Statement need
not be applied to immaterial items.**

This Statement was adopted by the affirmative votes of four members of the Financial Accounting Standards Board. Messrs. Mosso, Sprouse, and Walters dissented.

Messrs. Mosso, Sprouse, and Walters dissent to the issuance of this Statement. Statement 33 acknowledges that some of the supplementary disclosures that are applicable to enterprises having inventories and property, plant, and equipment are not applicable to enterprises that do not have such assets and it provides for omission of those inapplicable disclosures. The dissenting Board members agree that those and certain other Statement 33 disclosures are not applicable to investment companies, but they believe that complete exemption from presenting supplementary information about changing prices is not justified. The Statement 33 requirement that a five-year summary of key information be presented in constant dollars is especially useful in assessing the trend of an enterprise's performance relative to general inflation over a period of time. That assessment is just as important for an investment company as for an enterprise in any other industry. It is also essential for comparing the performance of investment companies with that of enterprises in other industries. Because the primary financial statements of investment companies already reflect current prices measured in nominal dollars, the Statement 33 supplementary information for investment companies should focus on a five-year summary of net investment income per share, dividends per share, and underlying net asset value per share, all measured in constant dollars. Statement 33 disclosures of that kind have been presented effectively in the annual reports of a number of investment companies, primarily money market funds.

Members of the Financial Accounting Standards Board:

Donald J. Kirk, *Chairman*
Frank E. Block
John W. March
Robert A. Morgan
David Mosso
Robert T. Sprouse
Ralph E. Walters

Appendix: BASIS FOR CONCLUSIONS

5. This appendix reviews considerations that were deemed significant by members of the Board in reaching the conclusions in this Statement. The Board members who assented to this Statement did so on the basis of the overall considerations. Individual Board members gave greater weight to some factors than to others.

6. An Exposure Draft of a proposed Statement, *Financial Reporting and Changing Prices: Investment Companies*, was issued on November 16, 1981. The Board received 27 comment letters in response to the Exposure Draft.

7. The four principal objectives of disclosures about effects of changing prices are outlined in paragraph 3 of Statement 33 and are developed in paragraphs 94 and 116-155 of that Statement. The four objectives are:

- a. *Assessment of future cash flows.* Providing information about changes in prices of assets while they are held rather than waiting until they are sold provides an up-to-date basis for assessing future cash flows from those assets.
- b. *Assessment of erosion of operating capability.* Providing information about the current prices of assets enables users of financial reports to assess the enterprise's ability to maintain, through replacement or otherwise, its ability to supply a fixed quantity of goods and services.
- c. *Assessment of financial performance.* Information about the sum of changes in the current prices of assets and income from operations may provide an improved basis for comprehensively assessing an enterprise's performance.
- d. *Assessment of erosion of general purchasing power.* Information about specific price changes combined with information about changes in the purchasing power of money can provide an improved basis for evaluation of whether an enterprise or a shareholder has maintained the general purchasing power of its capital.

8. The Board believes that the "value" amounts reported by investment companies in their primary financial statements are substantially equivalent to current cost amounts and that those financial statements, therefore, already provide the essential information required by Statement 33 to assess financial performance and future cash flows. Investment companies do not supply goods or services and generally do not own inventory or property, plant, and equipment. The Board believes, therefore, that the objective of providing information about maintenance of operating capability in the context of Statement 33 does not apply to investment companies. No respondent disagreed with that conclusion.

9. The Board also believes that some of the constant dollar disclosures required by Statement 33, such as income from continuing operations, operating revenue, and net assets, are of limited significance to investment companies and that disclosure of those items is not necessary for investment companies. No respondent disagreed with that conclusion.

10. Some respondents believe that investment companies should present a five-year summary of income, dividends, and end-of-year market price per share on a constant dollar basis to facilitate assessing the trend of those items after taking general inflation into account. The Board notes that Statement 33 requires those items to be included in the five-year summary in part because they interact with one another and with net assets to produce restated price/earnings ratios, dividend payout ratios, and book value/market value ratios. Because investment companies present all of those items on a substantially current cost basis in their primary financial statements, the constant dollar restatements of those items do not change the ratios. Therefore, the Board concludes that disclosure of restated earnings per share, dividends per share, and market price per share is not as useful for investment companies as it is for other enterprises. The Board also notes that the need for disclosure of those items is reduced for investment companies because those restated amounts can be determined by users of the financial reports based on the nominal dollar amounts in the primary financial statements and changes in the Consumer Price Index. For other enterprises, restated earnings per share and the ratios cannot be readily determined from the primary financial statements because detailed information about the age and depreciable lives of those enterprises' inventory and property, plant, and equipment is not available to the public. That information is necessary to restate income from continuing operations and net assets.

11. Some respondents viewed the Exposure Draft as relieving an entire industry from participation in the Statement 33 experiment. They believe that all industries should provide information about the impact of inflation that is most meaningful in the circumstances. The Board notes that relatively few investment companies exceed the size tests established in Statement 33. At December 31, 1980, there were more than 500 publicly traded investment companies, 26 of which exceeded \$1 billion in total assets. Furthermore, the Board believes that this Statement merely recognizes that the information required by Statement 33 either is provided in investment companies' primary financial statements, is not relevant for them, or can be determined readily by readers of those financial statements. The Board is not aware of any other industry that meets those unusual circumstances.

12. The Board concluded that it could reach an informed decision on the basis of existing data without a public hearing and that the effective date and transition specified in paragraph 4 are advisable in the circumstances.

13. The Board will reconsider this Statement as part of its comprehensive assessment of disclosure about effects of changing prices called for by Statement 33.