Statement of Financial Accounting Standards No. 70

Note: This Statement has been completely superseded

FAS70 Status Page
FAS70 Summary

Financial Reporting and Changing Prices: Foreign Currency Translation

an amendment of FASB Statement No. 33

December 1982

Financial Accounting Standards Board
of the Financial Accounting Foundation
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Statement of Financial Accounting Standards No. 70

Financial Reporting and Changing Prices: Foreign Currency Translation

an amendment of FASB Statement No. 33

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Paragraph Numbers

FAS 70: Financial Reporting and Changing Prices: Foreign Currency Translation

an amendment of FASB Statement No. 33

FAS 70 Summary

This Statement amends FASB Statement No. 33, *Financial Reporting and Changing Prices,* to implement revisions to the supplementary information about the effects of changing prices necessitated by changes in the method of translating foreign currency financial statements set out in FASB Statement No. 52, *Foreign Currency Translation.* However, this Statement has no effect on the reporting of supplementary information about changing prices by enterprises for which the U.S. dollar is the functional currency for all significant operations. The provisions of Statement 33 continue to apply to those enterprises.

An enterprise that measures a significant part of its operations in functional currencies other than the U.S. dollar is exempted from Statement 33's requirements to present historical cost information measured in units of constant purchasing power. Enterprises without significant amounts of inventory and property, plant, and equipment that have used historical cost information measured in units of constant purchasing power to satisfy Statement 33's current cost requirements may continue to do so.

Operations that use functional currencies other than the U.S. dollar should measure current cost amounts and increases or decreases therein in the functional currency. Adjustments to current cost information to reflect the effects of general inflation may be based on either the U.S. CPI(U) or functional currency general price level indexes.

INTRODUCTION

1. FASB Statement No. 33, *Financial Reporting and Changing Prices,* requires presentation of supplementary information about selected financial data using alternative accounting measurement systems. The provisions of Statement 33 concerning foreign currency translation were based on FASB Statement No. 8, *Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements.* FASB Statement No. 52, *Foreign*

Currency Translation, supersedes Statement 8 and revises the requirements for translating foreign currency financial statements for purposes of preparing the primary financial statements of an enterprise. This Statement implements amendments to Statement 33 necessitated by those revisions.

2. This Statement applies to an enterprise that (a) presents supplementary information about the effects of changing prices in conformity with Statement 33 (as supplemented by Statements 39, 40, 41, 46, and 69) [1] and (b) measures the results of a significant part of its operations in one or more functional currencies other than the U.S. dollar. This Statement does not affect the reporting of supplementary information about changing prices by enterprises for which the U.S. dollar is the functional currency for all significant operations. The provisions of Statement 33 continue to apply to those enterprises.

STANDARDS OF FINANCIAL ACCOUNTING AND REPORTING

3. An enterprise that measures a significant part of its operations in one or more functional currencies [2] other than the U.S. dollar is not required to disclose historical cost information measured in units of constant purchasing power for either the current or prior years, provided that current cost information is disclosed for those years. Enterprises that do not have significant amounts of inventory and property, plant, and equipment may continue to disclose historical cost information measured in units of constant purchasing power as a substitute for current cost information.

4. Current cost amounts and increases or decreases therein shall be first measured in the functional currency [3] and then translated into U.S. dollar equivalents in accordance with paragraph 12 of Statement 52. The effects of general inflation on the current cost information shall be measured either (a) after translation and based on the U.S. CPI(U) (the *translate- restate method*) or (b) before translation and based on the functional currency general price level index *(the restate-translate method).* The same method shall be used for all operations measured in functional currencies other than the U.S. dollar and for all periods presented. Regardless of which method is used, end-of-year net assets and the change in net assets during the year shall be measured in either average-for-the-year or end-of-year U.S. dollars. The translate-restate method is essentially the same as the original requirements of Statement 33 concerning disclosure of current cost/constant dollar information, except that translation adjustments are to be disclosed as a separate line item rather than included in measuring income from continuing operations and increases or decreases in current cost amounts. The method used shall be disclosed.

5. Paragraphs 6-19 set forth the technical amendments to Statement 33 needed to implement the standards in paragraphs 3 and 4 of this Statement. In addition, paragraphs 31-37 of Appendix A illustrate the preparation of current cost information based on the translate-restate

method; paragraphs 38-45 of that appendix illustrate the preparation of current cost information based on the restate-translate method.

Amendments to FASB Statement No. 33

Definitions

6. Subparagraph 22(c) of Statement 33, which defines current cost/constant dollar accounting, is superseded by the following definition:

> *Current cost/constant purchasing power accounting.* A method of accounting based on measures of current cost or lower recoverable amount in units of currency that each have the same general purchasing power. For operations for which the U.S. dollar is the functional currency, the general purchasing power of the dollar is used. For operations for which the functional currency is other than the U.S. dollar, the general purchasing power of either (a) the dollar or (b) the functional currency is used.

The references in Statement 33, paragraphs 36, 56, 66, and 137 *to current cost/constant dollar* are hereby amended to read *current cost/constant purchasing power.* In addition, the following definition is added as subparagraph 22(i) of Statement 33:

> *Current cost/nominal functional currency accounting.* A method of accounting based on measures of current cost or lower recoverable amount in units of the functional currency that do not each have the same general purchasing power.

Deletion of Historical Cost/Constant Dollar Requirements

7. Subparagraph 29(a) of Statement 33 is amended to read as follows:

> Information on income from continuing operations for the current fiscal year on a historical cost/constant dollar basis (paragraphs 39-46); however, this requirement does not apply to an enterprise that measures a significant part of its operations in one or more functional currencies other than the U.S. dollar, except as provided in paragraph 31.*
>
> *An enterprise with significant operations measured in functional currencies other than the U.S. dollar that voluntarily wishes to present historical cost information measured in units of constant purchasing power should prepare historical cost/constant functional currency information using a functional currency general price index to *restate* the functional currency amounts and then *translate* those amounts into U.S. dollar equivalents. In that situation, the restate-translate method shall be used to prepare current cost/constant purchasing power information.

8. The first sentence of paragraph 35 of Statement 33, which specifies the information to be disclosed in the five-year summary of selected financial data, is revised to read as follows:

> An enterprise is required to disclose the following information for each of its five most recent fiscal years (paragraphs 65 and 66); however, the historical cost/constant dollar disclosures specified by items b(1), b(2), and b(3) do not apply to an enterprise that measures a significant part of its operations in one or more functional currencies other than the U.S. dollar:

9. The following provision is added at the end of paragraph 31 of Statement 33:

> An enterprise that measures a significant part of its operations in one or more functional currencies other than the U.S. dollar and that does not have significant amounts of inventory and property, plant, and equipment may substitute other information for the current cost information required by subparagraphs 30(a), 30(b), and 30(d) or 30(e). The substituted information shall be historical cost information measured either (a) in units of constant U.S. general purchasing power or (b) in units of constant functional currency purchasing power translated into dollar equivalents in accordance with paragraph 12 of FASB Statement No. 52, *Foreign Currency Translation.*

10. The following provision is added at the end of paragraph 53 of Statement 33, as amended by Statements 39, 40, 41, 46, and 69:

> Operations measured in a functional currency other than the U.S. dollar may adjust the functional currency historical cost (and related expenses) of timberlands and growing timber, income-producing real estate, motion picture films, and oil and gas mineral resource assets by a functional currency general price level index and then translate those restated amounts to dollar equivalents in accordance with paragraph 12 of Statement 52 as a substitute for the current cost or lower recoverable amount of those assets.

Remeasurement of Current Cost Amounts

11. Paragraph 59 of Statement 33 is amended to read as follows:

> If current cost is measured in a foreign currency, other than the functional currency, the amount shall be remeasured into the functional currency at the current exchange rate, that is, the rate at the date of use, sale, or commitment to a specific contract (in the cases of depreciation expense and cost of goods sold) or the rate at the balance sheet date (in the cases of inventory and property, plant, and equipment).

The Translate-Restate Method

12. The following disclosure requirement is added to paragraph 30 of Statement 33, which specifies the current cost information to be disclosed for the current fiscal year:

> d. If inflation-adjusted current cost information for operations measured in a functional currency other than the U.S. dollar is based on the translate-restate method, the

aggregate foreign currency translation adjustment for the period, on the current cost basis, less any income taxes for the period allocated to the aggregate translation adjustment in the primary financial statements (Statement 52, subparagraphs 31(b) and 31(c)).

13. The following disclosure requirement is added to subparagraph 35(c) of Statement 33, which specifies the current cost information to be disclosed in the five-year summary of selected financial data:

(5) If inflation-adjusted current cost information for operations measured in functional currencies other than the U.S. dollar is based on the translate-restate method, the aggregate foreign currency translation adjustment, on the current cost basis, less any income taxes allocated to the aggregate translation adjustment in the primary financial statements (Statement 52, subparagraphs 31(b) and 31(c)).

The Restate-Translate Method

14. The following disclosure requirement is added to paragraph 30 of Statement 33, which specifies the current cost information to be disclosed for the current fiscal year:

e. If inflation-adjusted current cost information for operations measured in functional currencies other than the U.S. dollar is based on the restate-translate method, the aggregate foreign currency translation adjustment for the period, on the current cost basis, net of both any income taxes for the period allocated to the aggregate translation adjustment in the primary financial statements (Statement 52, subparagraphs 31(b) and 31(c)) and the aggregate parity adjustment (FASB Statement No. 70, *Financial Reporting and Changing Prices: Foreign Currency Translation,* paragraphs 74 and 75). The parity adjustment shall be the amount needed to measure end-of-year net assets and the change in net assets during the year in (1) average-for-the-year dollars, if income from continuing operations is measured in average-for-the-year functional currency units, or (2) end-of-year dollars, if income from continuing operations is measured in end-of-year functional currency units.

15. The following disclosure requirement is added to subparagraph 35(c) of Statement 33, which specifies the current cost information to be disclosed in the five-year summary of selected financial data:

(6) If current cost information for operations measured in functional currencies other than the U.S. dollar is based on the restate-translate method, the aggregate foreign currency translation adjustment, on the current cost basis, net of both any income taxes allocated to the aggregate translation adjustment in the primary financial statements (Statement 52, subparagraphs 31(b) and 31(c)) and the aggregate parity adjustment (Statement 70, paragraphs 74 and 75). The parity adjustment shall be the amount needed to measure end-of-year net assets and the change in net assets during the year in

> (a) average-for-the-year dollars, if income from continuing operations is measured in average-for-the-year functional currency units, or (b) end-of-year dollars, if income from continuing operations is measured in end-of-year functional currency units.

16. The following provisions are added at the end of paragraph 39 of Statement 33 concerning the general price level index to be used:

> The index used to compute information in units of constant functional currency purchasing power shall be a broad-based measure of the change in the general purchasing power of that functional currency. If no reliable index is available for a particular functional currency, management shall estimate the change in the general purchasing power of that currency (Statement 70, paragraphs 81 and 82).

17. Paragraph 41 of Statement 33 is amended to insert a provision concerning a foreign index, so that the paragraph reads as follows:

> If the level of the Consumer Price Index or a foreign functional currency general price level index at the end of the year and the data required to compute the average level of the index over the year have not been published in time for preparation of the annual report, they may be estimated by referring to published forecasts based on economic statistics or by extrapolation based on recently reported changes in the index.

18. The following sentences are added after the first sentence of paragraph 50 of Statement 33 concerning computation of the purchasing power gain or loss:

> If inflation-adjusted current cost information for operations measured in functional currencies other than the U.S. dollar is based on the restate-translate method, the purchasing power gain or loss on net monetary items shall be equal to the net gain or loss determined by restating the opening and closing balances of, and transactions in, monetary assets and liabilities in units of constant functional currency purchasing power. The purchasing power gain or loss computed in that manner shall be translated into its dollar equivalent at the average exchange rate for the period.

Disclosure of Method

19. The following disclosure requirement is added at the end of paragraph 34 of Statement 33, which specifies disclosures to be made in notes to the supplementary information:

> An enterprise that measures a significant part of its operations in one or more functional currencies other than the U.S. dollar shall disclose whether adjustments to the current cost information to reflect the effects of general inflation are based on the U.S. CPI(U) or on functional currency general price level indexes.

Effective Date and Transition

20. The provisions of this statement shall be effective for fiscal years ending after December 15, 1982 for which an enterprise has applied Statement 52. Restatement of supplementary information for prior periods in the five-year summary of selected financial data to conform to the provisions of this Statement is required only if the primary financial statements for those prior periods have been restated to conform to the provisions of Statement 52.

21. The method (either translate-restate or restate-translate) used in any restatement pursuant to paragraph 20 shall be the same as the method chosen for fiscal years for which this Statement is effective. If the restate-translate method is chosen, information prepared in accordance with the provisions of the Exposure Draft, *Financial Reporting and Changing Prices: Foreign Currency Translation,* issued December 22, 1981, need not be restated.

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

This Statement was adopted by the affirmative votes of six members of the Financial Accounting Standards Board. Mr. Morgan dissented.

Mr. Morgan disagrees with the conclusions expressed in this Statement because he believes that continuing to require enterprises that use foreign functional currencies for a significant part of their operations to disclose current cost information imposes a cost greater than the potential benefit. As acknowledged in paragraph 86, application of the provisions of this Statement will affect the comparability of the supplementary current cost information prepared before and after its adoption. Mr. Morgan believes that the discontinuity of information thus created will impair the usefulness of the information for discerning trends in data items and thus will probably render conclusions of researchers attempting to use the data invalid or subject to many unquantifiable reservations.

Not all accounting changes cause discontinuity of data as significant as that which resulted from the introduction of the functional currency concept in Statement 52. Most accounting changes merely result in a different measurement or presentation of identical or similar economic facts, and the effect of the change generally can be measured with reasonable reliability. In the instance of foreign currency translation, there is evidence that enterprises altered their ways of doing business to minimize reportable exchange losses under Statement 8. It seems logical to assume that further changes in business practices will result when enterprises adopt Statement 52 and the effect of such changes cannot be measured with reasonable reliability. Accordingly, the discontinuity created by Statement 52 is different from the discontinuity arising from other accounting changes.

In Mr. Morgan's opinion, it also is not cost beneficial to consider that the experiment with alternative measurement systems for enterprises that use foreign functional currencies for a significant part of their operations constitutes two experiments—one before adoption of Statement 52 and the other after adoption of Statement 52. Because the data for each of those experiments would be for such a short time period (between two and three years), researchers would have difficulty analyzing whether meaningful trends or random events were responsible for the observable changes.

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 A: ILLUSTRATIVE CALCULATIONS TO COMPUTE CURRENT COST/CONSTANT PURCHASING POWER INFORMATION

Introduction

22. This appendix presents an example of the methodology that might be used to calculate supplementary current cost information for a foreign subsidiary that uses the local currency as its functional currency. To simplify the calculations, the company is assumed to have a fixed asset but no inventory. The mechanics of restating inventory and cost of goods sold on a current cost basis are similar to those illustrated for property, plant, and equipment and depreciation.

23. The methodology used in this example is essentially the same as that illustrated in Appendix E of Statement 33. The major adaptation needed to accommodate the functional currency concept is first to measure not only current cost amounts but also increases or decreases therein for the foreign subsidiary in its local currency and then to translate those amounts into U.S. dollar equivalents in accordance with Statement 52. The effect of general inflation may be measured either (a) after translation and based on the U.S. CPI(U) or (b) before translation and based on the local price index. To prepare consolidated supplementary information, dollar equivalent amounts determined in accordance with either (a) or (b) would be aggregated with dollar equivalent amounts computed in a similar fashion for other subsidiaries with foreign functional currencies and dollar amounts for operations for which the U.S. dollar is the functional currency. Statement 33 (paragraph 27) encourages presentation of information by segments of business enterprises, and it may be helpful to present foreign operations separately.

24. Throughout this illustration, CFC indicates constant functional currency amounts, and CFC$ indicates the translated dollar equivalents of CFC amounts. Nominal functional currency is indicated by FC, and C$E indicates dollar equivalents of FC amounts restated by the U.S. index.

Assumptions

25. The functional currency financial statements of Sub Company appear below:

Sub Company
Historical Cost FC Balance Sheets

	December 31	
	1982	**1981**
Cash	FC2,550	FC1,250
Equipment	2,500	2,500
Accumulated depreciation	750	500
Net equipment	1,750	2,000
Total assets	FC4,300	FC3,250
Current liabilities	FC 600	FC 500
Long-term debt	2,000	1,500
Total liabilities	2,600	2,000
Capital stock	500	500
Retained earnings	1,200	750
Total equity	1,700	1,250
Total liabilities and equity	FC4,300	FC3,250

Sub Company
Historical Cost FC Statement of Income and Retained Earnings
Year Ending December 31, 1982

Revenue	FC5,000
Salaries	2,500
General and administrative expenses	1,000
Depreciation	250
Interest	350
	4,100
Income before taxes	900
Income taxes	450
Net income	450
Retained earnings—beginning of year	750
Retained earnings—end of year	FC1,200

26. The fixed asset was acquired on December 31, 1979. It is depreciated on a straight-line basis over 10 years and is expected to have no salvage value. There were no acquisitions or disposals of assets during the year.

27. Exchange rates between the functional currency and the dollar are:

December 31, 1981	FC1 = \$1.20
Average 1982	FC1 = \$1.10
December 31, 1982	FC1 = \$1.00

28. Management has measured the current cost of equipment at December 31, 1981 and 1982 as follows:

	1982	1981
Current cost	FC5,500	FC4,000
Accumulated depreciation	(1,650)	(800)
Net current cost	FC3,850	FC3,200

The "net recoverable amount" has been determined to be in excess of net current cost at both dates.

29. Current cost equity in nominal FC at the beginning and end of the year may be computed by adding net monetary items and net property, plant, and equipment at current cost. To determine current cost equity in nominal dollars, those FC amounts are translated at the appropriate exchange rate:

	December 31					
	1982			1981		
	FC	Exchange Rate	$	FC	Exchange Rate	$
Monetary items (par. 25):						
Cash	FC2,550	$1	$ 2,550	FC1,250	$1.20	$ 1,500
Current liabilities	(600)	$1	(600)	(500)	$1.20	(600)
Long-term debt	(2,000)	$1	(2,000)	(1,500)	$1.20	(1,800)
Net monetary liabilities	FC (50)		$ (50)	FC (750)		$ (900)
Equipment–net (par. 28)	FC3,850	$1	$ 3,850	FC3,200	$1.20	$ 3,840
Equity at current cost	FC3,800		$ 3,800	FC2,450		$ 2,940

30. The U.S. and local general price level indexes are:

	Local	U.S.
December 1981	144	281.5
Average 1982	158	292.5*
December 1982	173	303.5*

*Assumed for illustrative purposes.

The Translate-Restate Method

31. To apply the translate-restate method, amounts measured in nominal FC are first translated into their dollar equivalents. Changes in those dollar equivalent amounts are then restated to reflect the effects of U.S. inflation.

Current Cost Depreciation and Income from Continuing Operations

32. The first step is to determine current cost depreciation for the year as follows:

Current cost—beginning of year	FC4,000
Current cost—end of year	5,500
	9,500
	÷ 2
Average current cost, gross	FC4,750

Current cost depreciation expense for the year measured in average 1982 CFC is CFC475 (FC4,750 x 10%). Computation of current cost depreciation and income from continuing operations does not involve use of a general price level index if measurements are made in average-for-the-year currency units. Accordingly, reported current cost depreciation under the translate-restate method is $523 (FC475 x $1.10).

33. Income from continuing operations on a current cost basis measured in average 1982 CFC is computed by simply replacing historical cost depreciation in income from continuing operations in the primary financial statements with the current cost amount. Accordingly, current cost income from continuing operations measured in average 1982 CFC is:

Net income + historical cost depreciation - current cost depreciation
= income from continuing operations

FC450 (par. 25) + FC250 (par. 25) - FC475 (par. 32) = CFC225

Reported current cost income from continuing operations under the translate-restate method is C$E248 (CFC225 x $1.10).

Excess of Increase in Specific Prices over Increase in General Price Level

34. The second step is to compute the change in the current cost of equipment and the effect of the increase in the general price level. To measure the increase in current cost of equipment in nominal FC dollar equivalents, the effect of the exchange rate change must be excluded (paragraphs 60 - 62). One way to accomplish that is to translate the 12/31/81 and 12/31/82 FC current cost amounts to dollar equivalents at the average exchange rate and then restate those dollar amounts to average 1982 constant dollar equivalents:

	Current Cost/FC	Exchange Rate	Current Cost/$	Conversion Factor	Current Cost/C$E
Current cost, net—12/31/81 (par. 28)	FC3,200	$1.10	$3,520	292.5(Avg. 1982) / 281.5(Dec. 1981)	C$E3,658
Depreciation	(475)	$1.10	(523)	*	(523)
Current cost, net—12/31/82 (par. 28)	3,850	$1.10	4,235	292.5(Avg. 1982) / 303.5(Dec. 1982)	4,081
Increase in current cost	FC1,125		$1,238		C$E 946

*Assumed to be in average 1982 C$E

The inflation component of the increase in current cost amount is the difference between the nominal dollar and the constant dollar equivalent amounts:

Increase in current cost ($)	$ 1,238
Increase in current cost (C$E)	C$E 946
Inflation component	292

Purchasing Power Gain or Loss on Net Monetary Items

35. The third step is to compute the purchasing power gain or loss on net monetary items. Under the translate-restate method, the translated beginning and ending net monetary liabilities are restated to average 1982 dollars. The U.S. purchasing power gain is then the balancing amount:

	FC	Exchange Rate	$
Net monetary liabilities—12/31/81 (par. 29)	FC750	$1.20	$900
Net monetary liabilities—12/31/82 (par. 29)	50	$1.00	50
Decrease during the year	FC700		$850

	$	Conversion Factor	C$E
		292.5(Avg. 1982)	C$E935
Net monetary liabilities 12/31/81	$ 900	281.5(Dec. 1981)	
Decrease during the year	(850)	*	(850)
Net monetary liabilities 12/31/82	$ 50	292.5(Avg. 1982)	48
		303.5(Dec. 1982)	
Purchasing power gain			C$E 37

*Assumed to be in average 1982 C$E

The above computation is the same as that used to compute the purchasing power gain or loss on net monetary items under the original translate-restate provisions of Statement 33. In some circumstances, that procedure will include a part of the effect of exchange rate changes on net monetary items in the purchasing power gain or loss. A more theoretically correct computation that would completely exclude the effect of exchange rate changes would be to compute a separate purchasing power gain or loss for each functional currency operation in a manner similar to that illustrated in paragraph 34 for the increase in specific prices. For the example, that alternative method produces a purchasing power gain of $34:

	FC	Average Exchange Rate	$	Conversion Factor	C$E
Net monetary liabilities—12/31/81 (par. 29)	FC750	$1.10	$825	292.5(Avg. 1982) 281.5(Dec. 1981)	C$E857
Decrease during the year	(700)	$1.10	770	*	(770)
Net monetary liabilities—12/31/82 (par. 29)	FC 50	$1.10	$ 55	292.5(Avg. 1982) 303.5(Dec. 1982)	53
Purchasing power gain					C$E 34

*Assumed to be in average 1982 C$E

However, the first procedure illustrated is less costly because it can be applied on a consolidated basis, and it generally provides a reasonable approximation. Accordingly, that method is acceptable.

Reconciliation of Equity

36. Although neither Statement 33 nor this Statement requires disclosure of a reconciliation of equity, such a reconciliation serves as a check of the calculations and is a convenient way to compute the translation adjustment:

Equity at 12/31/81 in average 1982 C$ $2,940 (par. 29) x 292.5/281.5		C$3,055
Income from continuing operations (par. 33)	C$E248	
Purchasing power gain (par. 35)	37	
Excess of increase in specific prices over increase in general price level (par. 34)	946	
Translation adjustment (par. 37)	(624)	
Increase in equity in terms of U.S. purchasing power		607
		C$3,662
Equity at 12/31/82 in average 1982 C$ $3,800 (par. 29) × 292.5/303.5		C$3,662

Translation Adjustment

37. The translation adjustment is the amount needed to balance the reconciliation of equity. The translation adjustment determined under the translate-restate method may be checked by translating the beginning- and end-of-year equity on a C$ basis into FC amounts and using those FC amounts in a calculation similar to that illustrated in paragraph 61 of Appendix B:

	C$	Exchange Rate	FC
Equity at 12/31/81 in average 1982 C$ (par. 36)	C$3,055	$0.833*	FC2,545
Equity at 12/31/82 in average 1982 C$ (par. 36)	3,662	$ 1.00	3,662
Increase in equity	C$ 607		FC1,117

Restated opening equity		FC2,545
Exchange rate change during 1982 ($1.20 – $1.00)	×	(.20)
		$ (509)
		FC1,117
Plus increase in equity		
Difference between ending exchange rate and average rate for 1982 ($1.10 – $1.00)	×	(.10)
		$ (112)
Translation adjustment		$ (621)

*1FC ÷ $1.20 = $0.833

The difference of $3 ($624 - $621) between the translation adjustment computed above and the translation adjustment that appears in paragraph 36 reflects the $3 difference ($37 - $34) between the short-cut and theoretically correct procedures illustrated in paragraph 35.

The Restate-Translate Method

38. To apply the restate-translate method, the steps illustrated in paragraphs 31-35 are followed except that all restatements to reflect the effects of general inflation are made before translation to dollar equivalents and using the local general price level index.

Current Cost Depreciation and Income from Continuing Operations

39. Current cost depreciation and income from continuing operations are CFC475 and CFC225, respectively, as determined in paragraphs 32 and 33.

Purchasing Power Gain or Loss on Net Monetary Items

40. To apply the restate-translate method, the FC amount of net monetary items at the beginning of the year, changes in the net monetary items, and the amount at the end of the year are restated into average 1982 CFC. The purchasing power gain or loss on net monetary items is then the balancing item:

	FC	Conversion Factor	CFC
Net monetary liabilities 12/31/81 (par. 29)	FC750	158 (Avg. 1982) / 144 (Dec. 1981)	CFC823
Decrease during the year	(700)	*	(700
Net monetary liabilities 12/31/82 (par. 29)	FC 50	158 (Avg. 1982) / 173 (Dec. 1982)	46
Purchasing power gain			CFC 77

*Assumed to be in average 1982 CFC.

Excess of Increase in Specific Prices over Increase in General Price Level

41. Under the restate-translate method, the local index is used to restate the beginning and ending current cost/FC amounts into average 1982 CFC:

	Current Cost/FC	Conversion Factor	Current Cost/CFC
Current cost, net—12/31/81	FC3,200	158 (Avg. 1982) / 144 (Dec. 1981)	CFC3,511
Depreciation	(475)	*	(475)
Current cost, net—12/31/82	(3,850)	158 (Avg. 1982) / 173 (Dec. 1982)	(3,516)
Increase in current cost	FC1,125		CFC 480

*Assumed to be in average 1982 CFC.

The inflation component of the increase in current cost amount is the difference between the nominal functional currency and constant functional currency amounts:

Increase in current cost (FC)	FC1,125
Increase in current cost (CFC)	CFC 480
Inflation component	645

Reconciliation of Equity

42. As with the translate-restate method, a reconciliation of equity acts as a check of the calculations. A reconciliation of equity also is a convenient point at which to translate the functional currency amounts determined in the preceding paragraphs into dollar equivalents and is a convenient way to compute the translation and parity adjustments.

43. If opening and closing equity are restated to average 1982 CFC using the local index, the reconciliation of equity under the restate-translate method would be:

	CFC	Exchange Rate	CFC$
Equity at 12/31/81 in average 1982 CFC FC2,450 (par. 29) × 158/144	CFC2,688	1.20	CFC$3,225
Income from continuing operations (par. 39)	225	1.10	248
Purchasing power gain (par. 40)	77	1.10	85
Excess of increase in specific prices over increase in general price level (par. 41)	480	1.10	528
Translation adjustment (par. 44)			(616)
	CFC3,470		CFC$3,470
Equity at 12/31/82 in average 1982 CFC FC3,800 (par. 29) x 158/173	CFC3,470	1.00	CFC$3,470

Translation Adjustment

44. The translation adjustment is the amount needed to balance the CFC$ reconciliation of equity. The adjustment may be computed as (a) the change in exchange rates during the period

multiplied by the restated amount of net assets at the beginning of the period plus (b) the difference between the average exchange rate for the period and the end-of-period exchange rate multiplied by the increase or decrease in restated net assets for the period. Accordingly, the translation adjustment under the restate-translate method is:

Restated opening equity (par. 43)	CFC2,688
Exchange rate change during 1982 ($1.20 – $1.00)	× (.20)
	$ (538)
Plus (equity at 12/31/82 minus equity at 12/31/81 = 3,470 – 2,688)	CFC 782
Difference between ending exchange rate and average rate for 1982 ($1.10 – $1.00)	× (.10)
	(78)
Translation adjustment	$ (616)

Parity Adjustment

45. The reconciliation of equity in paragraph 43, in which beginning-of-year and end-of-year equity are stated in average 1982 CFC, is needed to calculate the translation adjustment in CFC$. However, beginning-of-year and end-of-year equity and the increase in equity must be stated in average 1982 constant dollars in the supplementary current cost information. Beginning-of-year and end-of-year equity in average 1982 constant dollars are C$3,055 and C$3,662, respectively, as computed in paragraph 36. The overall increase in U.S. purchasing power for the year thus is C$3,662 - C$3,055 = C$607. The difference between that amount and the increase of CFC$245 (CFC$3,470 - CFC$3,225) that appears in the reconciliation of equity in paragraph 43 is the parity adjustment needed to adjust the ending net investment and the increase in the net investment to measures in average 1982 constant dollars (paragraph 74). Accordingly, the parity adjustment is C$607 - CFC$245 = $362. That amount represents (a) the effect of the difference between local and U.S. inflation from 12/31/81 to average for 1982 on the restatement of opening equity to average units plus (b) the effect of the difference between local and U.S. inflation from average for 1982 to 12/31/82 on the restatement of ending nominal dollar equity to average units:

Equity at 12/31/81 (par. 29)	$ 2,940
Difference between local and U.S. inflation from 12/31/81 to average 1982 (158/144 – 292.5/281.5)	× 0.0581
	$ 171
Plus equity at 12/31/82 (par. 29)	$ 3,800
Difference between U.S. and local inflation from average 1982 to 12/31/82 (292.5/303.5 – 158/173)	× 0.0504
	$ 191
Parity adjustment	$ 362

For display purposes, the parity adjustment is combined with the $(616) translation adjustment (paragraph 43). Accordingly, the net translation adjustment disclosed in the supplementary current cost information prepared using the restate-translate method would be $(616) + $362 = $(254). The components of current cost information based on the restate-translate method thus would be:

Beginning-of-year equity		C$3,055
Income from continuing operations	CFC$248	
Purchasing power gain	85	
Excess of increase in specific prices over increase in general price level	528	
Translation and parity adjustments	(254)	
Increase in equity in terms of U.S. purchasing power		607
End-of-year equity		C$3,662

Appendix B

BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

CONTENTS

Paragraph Numbers

Appendix B: BACKGROUND INFORMATION AND BASIS FOR CONCLUSIONS

Introduction

46. This appendix reviews considerations 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 members gave greater weight to some factors than to others.

Change in Objectives of Foreign Currency Translation

47. An objective of foreign currency translation stated in Statement 8 was to remeasure in U.S. dollars assets, liabilities, revenues, and expenses originally measured or denominated in a foreign currency. The original provisions of Statement 33 concerning foreign currency translation were based on the Statement 8 approach. Amounts that were originally measured in a foreign currency were first remeasured into U.S. dollars and then restated into constant dollars.

48. In contrast, Statement 52 requires that the financial statements of an enterprise reflect the financial results and relationships as measured in the functional currencies in which it conducts its business. Paragraph 74 of Statement 52 indicates that the translation process should retain the functional currency relationships created in the economic environment of the foreign operations; it should not remeasure individual financial statement elements as if the operations had been conducted in the economic environment of the reporting currency.

49. The possible need for a change in the method of calculating the supplementary information for foreign operations following completion of the Board's review of Statement 8 was anticipated in paragraph 192 of Statement 33. Accordingly, in recognition of the change in objectives of foreign currency translation, the Board in October 1981 added to its agenda a project to amend Statement 33 to maintain consistency between the data reported in the primary financial statements under Statement 52 and the supplementary information about the effects of changing prices. On December 22, 1981, the Board issued for a 120-day comment period an Exposure Draft that set forth proposals designed to achieve that consistency.

50. Sixty-nine comment letters were received in response to that initial Exposure Draft. Many respondents expressed the view that the costs of implementing the proposed requirements would exceed the related benefits. In June 1982, after considering the comment letters received, the Board decided that the Exposure Draft should be revised and reissued for public comment. On August 19, 1982, a revised Exposure Draft was issued for a 60-day comment period.

Seventy-one comment letters were received.

Historical Cost/Constant Functional Currency Information

51. For operations measured in a foreign functional currency, the initial Exposure Draft proposed replacing the existing historical cost/constant dollar measurements with historical cost/constant functional currency measurements. That change would have required that the functional currency historical cost of inventory and property, plant, and equipment first be restated into units of constant functional currency purchasing power using an index of general price level changes in the local environment and then translated into dollar equivalents in accordance with the requirements of Statement 52.

52. Although respondents to the initial Exposure Draft generally agreed that instituting a *restate-translate* procedure to determine constant functional currency information would be consistent with the functional currency approach of Statement 52, many objected to the proposed requirements. Those respondents generally expressed the view that the restate-translate approach would be significantly more complex and difficult to understand, and more expensive to prepare, than the procedures used to prepare constant dollar information. In particular, the start-up costs would be substantial, and the ongoing costs for an enterprise with many subsidiaries that use functional currencies other than the U.S. dollar also could be significant. Many respondents expressed the view that requiring such a costly change to the historical cost/constant dollar requirements would be inappropriate, particularly considering the limited time remaining before the Board is scheduled to begin its evaluation of the results of the Statement 33 experiment.

53. Many respondents to the initial Exposure Draft also expressed the view that the historical cost/constant dollar aspect of the Statement 33 experiment appeared to be generating less interest on the part of users than current cost information. Accordingly, they objected to requirements that would significantly increase the costs associated with an accounting system of uncertain value. Many of those respondents recommended that the historical cost/constant dollar requirements be terminated.

54. Because the restate-translate methodology does not affect those enterprises subject to Statement 33 that either do not have foreign operations or that use the U.S. dollar as the functional currency for all significant foreign operations, the Board decided that the historical cost/constant dollar requirements should not be immediately discontinued for all companies. However, the Board concluded that the additional costs associated with requiring historical cost/constant functional currency information could not be justified at this time. Accordingly, in the revised Exposure Draft, the Board proposed exempting enterprises that use functional currencies other than the U.S. dollar for a significant part of their operations from the historical cost/constant purchasing power requirements of Statement 33 until the usefulness of that information has been evaluated.

55. Some respondents to the revised Exposure Draft expressed the view that continuing to

require enterprises for which the U.S. dollar is the functional currency for all significant operations to disclose historical cost/constant dollar information was not justified. They generally believed that exempting a large number of the enterprises subject to Statement 33 from those requirements would effectively end and perhaps prejudge the results of the constant dollar aspect of the Statement 33 experiment. The Board disagrees with that view. A substantial number of enterprises included in the Statement 33 sample—probably more than half of the total—are not significantly affected by the adoption of Statement 52. The Board believes that those enterprises will constitute a continuing sample of sufficient size to provide useful experience with historical cost/constant dollar data. Moreover, exempting those enterprises for which continued experimentation at this time would not be cost effective is not intended to prejudge the usefulness of historical cost/constant purchasing power information generally. If the evaluation of Statement 33 indicates that historical cost information measured in units of constant purchasing power is useful, at least for certain types of enterprises or assets, whether to require historical cost/constant functional currency information can be reconsidered.

56. Some respondents to the revised Exposure Draft suggested that the Board define *significant* for purposes of the exemption from historical cost/constant dollar requirements. The Board considered specifying a percentage size test but rejected that approach because it believes the assessment of significance should take into account the facts and circumstances of a particular enterprise. The Board believes management is in the best position to make that assessment. If foreign functional currency operations are not deemed to be significant, historical cost/constant dollar information prepared under the translate-restate method should be presented.

57. The exemption discussed in paragraphs 54 and 55 relates only to disclosure of historical cost information measured in units of constant purchasing power as one of two alternative measurement systems. Statement 33 permits historical cost/constant dollar measures to be substituted for current cost measures of timberlands and growing timber, income-producing real estate, motion picture films, and oil and gas mineral resources. In addition, enterprises that do not have material amounts of inventory and property, plant, and equipment are not required to disclose both historical cost/constant dollar and current cost information because the two sets of information would be essentially the same. The Board concluded that enterprises that have disclosed historical cost information measured in units of constant purchasing power as a substitute for current cost information should continue to do so. Although that substitution will require use of a functional currency general price level index to adjust the functional currency historical cost of certain specialized assets, the Board does not believe that will impose an undue burden on preparers. In that situation, the functional currency general price level index merely serves as a substitute for a specific price index.

Current Cost Information

Nominal Current Cost Measures

58. Paragraph 59 of Statement 33 requires current cost amounts that are originally measured in a foreign currency to be translated into U.S. dollars at the exchange rate in effect at the date of that foreign currency measure. The increase or decrease in current cost amounts for the period is then computed by comparing the dollar current cost measures of assets at their "entry dates" for the year with dollar current cost measures of the assets at their "exit dates" for the year (paragraph 55 of Statement 33). Under the original requirements of Statement 33, the increase or decrease in the dollar current cost amount of an asset originally measured in a foreign currency includes two components:

a. The change in the foreign currency current cost of the asset
b. The effect of any change in exchange rates during the holding period for the asset

Statement 33 does not require those components to be separately disclosed.

59. Statement 52 requires a foreign entity's assets and liabilities to be measured in its functional currency and places importance on reporting in the income statement the effects of transactions and events as measured in the functional currency environment. Accordingly, the Board concluded that the concepts underlying Statement 52 require that the increase or decrease in current cost amounts initially be measured in the functional currency and then translated into dollar equivalents at the average exchange rate for the holding period. As a result, the effect of exchange rate changes is reflected in a separate line item, "translation adjustment."

60. The distinction between (a) measures of current cost amounts and increases or decreases therein in U.S. dollars as described in paragraph 58 and (b) measures in the functional currency as described in paragraph 59 can be illustrated with a simple example in which a foreign entity's only asset is inventory with a current cost of FC200 and FC400 at the beginning and end of the year, respectively. The exchange rates between the functional currency and the dollar are:

Beginning of year	FC1 = $1.00
Average for year	FC1 = $0.90
End of year	FC1 = $0.80

Measuring the increase or decrease in current cost in dollars under the original requirements of Statement 33 produces the following results:

End-of-year current cost	FC400 × \$0.80 = \$320
Beginning-of-year current cost	FC200 × \$1.00 = 200
Increase in current cost	\$120

If there are no other activities during the period, the increase in the parent's net investment on a current cost basis is \$120.

61. In contrast, measuring the increase in current cost in the functional currency and then translating that amount into its dollar equivalent using the average exchange rate produces the following results:

End-of-year current cost	FC400
Beginning-of-year current cost	200
Increase in current cost	FC200 × \$0.90 = \$180

The effect of exchange rate changes during the holding period of the inventory is reflected separately. It consists of (a) the product of the beginning functional currency current cost amount and the total exchange rate change plus (b) the product of the change in current cost and the difference between the average and ending exchange rates:

Beginning-of-year current cost		FC200
Exchange rate change during the year (\$1.00 – \$0.80)	×	(.20)
		\$ (40)
Plus increase in current cost		FC200
Difference between average and ending exchange rates (\$0.90 – \$0.80)	×	(.10)
		\$ (20)
Translation adjustment		\$ (60)

Accordingly, the nominal dollar increase in the parent's net investment on a current cost basis under the approach required by this Statement consists of two components:

Increase in current cost	$180
Translation adjustment	(60)
	$120

62. It is important to note that both approaches produce the same dollar amounts of ending net investment and increase for the year in the net investment. The difference between the approaches is the combined or separate disclosure of the effects of two kinds of price changes—changes in the functional currency specific prices of assets and changes in exchange rates. The method required by this Statement separates the effects of those two distinct kinds of price changes, each of which may have different significance in assessments of future cash flows.

Inflation-Adjusted Current Cost Measures

63. Application of the functional currency theory to current cost information measures the parent's net investment in foreign entities, and the change in that net investment, in nominal U.S. dollars. Accordingly, the Board concluded that current cost information measured in units of constant purchasing power should reflect the change in the net investment during the year in terms of U.S. purchasing power. The Board believes that either of two approaches to accomplishing that result has conceptual merit. Current cost amounts in nominal units of the functional currency might be (a) translated into dollar equivalents and changes in those amounts restated to reflect the effect of U.S. inflation *(translate-restate)* or (b) first adjusted to reflect the effect of local inflation and those restated amounts then translated to dollar equivalents *(restate-translate)*. Under the latter approach, a parity adjustment that reflects the difference between U.S. and local inflation is needed to adjust the total change in the parent's net investment to a U.S. perspective because the individual line items reflect a local perspective. Those two approaches are discussed in paragraphs 64-75.

64. Some believe that extension of the functional currency theory to current cost information measured in units of constant purchasing power should reflect (a) the effect of local inflation on the foreign entity's individual financial statement elements and (b) the effect of U.S. inflation on the total change for the year in the net investment (net assets of the foreign entity). They believe that approach would provide information useful for assessing both the performance of the foreign entity in maintaining its purchasing power in the functional currency environment and the performance of the enterprise as a whole in maintaining the purchasing power of its equity (net assets) in relation to the U.S. dollar.

65. Others believe that reporting individual components of the current cost information (that is, income from continuing operations and the increase or decrease in current cost amount) measured in nominal functional currency units and reflecting the effect of U.S. inflation on the

dollar equivalent amounts, perhaps through a one-line capital maintenance adjustment, would best achieve the objectives of (a) maintaining the financial results and relationships created in the functional currency environment and (b) reporting the total performance of the enterprise from a U.S. perspective. They are not convinced that achieving the objective of the functional currency theory requires use of a restate-translate methodology to reflect the effects of local inflation on individual components of the current cost information if combined current cost information for the entire enterprise is to be reported to those concerned with changes in U.S. dollar equity.

66. The relationship between the two approaches described above can be illustrated by extending the example introduced in paragraph 60 to assume that the foreign entity also holds FC100 cash during the year. Accordingly, the foreign entity's net assets at the beginning of the year are FC300. Local inflation for the year is assumed to be 20 percent, and U.S. inflation is 10 percent. Paragraphs 67-71 illustrate the approach described in paragraph 65; paragraphs 72-75 illustrate the approach described in paragraph 64.

The Translate-Restate Approach

67. The view described in paragraph 65 would report current cost information measured in nominal functional currency units translated into dollar equivalents and then adjusted to reflect the effect of U.S. inflation. That might be accomplished by means of a one-line capital maintenance adjustment, computed as the U.S. inflation component of the nominal increase or decrease in the net investment during the year. In the example introduced in paragraph 66, the capital maintenance adjustment in end-of-year dollars would be the product of the beginning-of-year nominal dollar net investment ($300) and the U.S. inflation rate for the year (10 percent), or $30.

68. Under the capital maintenance adjustment approach, individual line items of the current cost information would be measured in nominal functional currency dollar equivalents. Presentation of individual financial statement elements in constant purchasing power terms would be limited to the five-year summary, in which prior years' data would be restated by the U.S. CPI(U) to provide a statistical display of interperiod relationships on a constant basis. Accordingly, current cost information [4] for the current year in the example would be:

Beginning-of-year net investment in end-of-year dollars	
$300 x 110/100	$ 330
Increase in specific prices	180
Translation adjustment	(80)
Capital maintenance adjustment	(30)
End-of-year net investment	$ 400

The translation adjustment of $(80) is stated in nominal U.S. dollars; it is (a) the $(60) computed in paragraph 61 plus (b) a $20 loss on the FC100 cash held during the year. Although omitted from the example for simplicity, income from continuing operations on a current cost basis also would be measured in nominal functional currency dollar equivalents.

69. That capital maintenance adjustment of $30 may be split into 2 components: (a) a U.S. purchasing power loss on net monetary items of $10 ($100 x 10%) plus (b) the amount needed to maintain the U.S. purchasing power represented by the beginning dollar equivalent current cost of inventory, or $20 ($200 x 10%). Some Board members believe that reporting those components separately may be useful; in particular, they believe that the purchasing power gain or loss on net monetary items may be significant when compared with interest expense in evaluating an enterprise's use of borrowed funds. That point is explained more fully in paragraphs 150-155 of Statement 33. Other Board members believe that the one-line capital maintenance adjustment approach may be the eventual solution to reporting inflation-adjusted current cost information but that such a change would have implications for the reporting of current cost information by all enterprises—not only those that measure a significant part of their operations in functional currencies other than the U.S. dollar. The one-line capital maintenance adjustment approach therefore would be difficult to introduce into the Statement 33 experiment at this time. Accordingly, those Board members also would separate the capital maintenance adjustment into its two components for display purposes, at least until the Board has evaluated the results of the Statement 33 experiment.

70. The revised Exposure Draft specifically requested respondents to comment on the capital maintenance adjustment approach. Most respondents who did so agreed that an alternate display of adjustments to current cost information to reflect the effects of changes in the general price level should not be introduced at this time. Many expressed the opinion, however, that the capital maintenance adjustment approach should be explored further as part of the comprehensive evaluation of Statement 33. Accordingly, the Board decided not to require or permit the capital maintenance adjustment display at this time.

71. In the example introduced in paragraph 66, the elements of the current cost information disclosed under the translate-restate approach required by this Statement would be (a) a purchasing power loss of $10 and (b) an inflation-adjusted increase in current cost of inventory computed as the dollar equivalent of the nominal functional currency increase ($180) less the U.S. inflation component ($20), or $160.

The Restate-Translate Approach

72. In contrast, the restate-translate approach described in paragraph 64 would measure the purchasing power gain or loss on net monetary items and the inflation component of the increase in the current cost of inventory and property, plant, and equipment in terms of local inflation in the functional currency environment. For the example discussed in paragraphs 67-71, measuring in end-of-year constant functional currency units (CFC) would result in (a) a purchasing power

loss of CFC20 (FC100 x 20%) and (b) an inflation-adjusted increase in current cost amount of CFC160—computed as the nominal functional currency increase of FC200 (paragraph 61) minus the amount needed to maintain the local purchasing power represented by the beginning current cost amount, or FC40 (FC200 x 20%).

73. If beginning-of-year net assets also are restated to end-of-year constant functional currency under a restate-translate approach, a reconciliation of equity would appear as follows:

	CFC	Exchange Rate	CFC$
Beginning-of-year equity in end-of-year CFC FC300 x 120/100	CFC360	$1.00	CFC$360
Purchasing power loss	(20)	.90	(18)
Excess of increase in specific prices over increase in general price level	160	.90	144
Translation adjustment			(86)
	CFC500	.80	CFC$400
End-of-year equity in end-of-year CFC	CFC500		CFC$400

The translation adjustment of $(86) also can be computed directly:

Beginning-of-year equity		CFC360
Exchange rate during the year ($1.00 - $0.80)	×	(.20)
		$ (72)
Plus increase in equity (CFC500 – CFC360)		CFC140
Difference between average and ending exchange rates ($0.90 – $0.80)	×	(.10)
		$ (14)
Translation adjustment		$ (86)

74. The above reconciliation reflects only the effect of local inflation and indicates an increase in the dollar equivalent of the net investment of $40 (CFC$400 - CFC$360). However, the view described in paragraph 64 requires that supplementary current cost information reflect the change in the net investment during the year in terms of U.S. purchasing power. Determining the increase in the U.S. purchasing power represented by the net investment requires comparing end-of-year equity with beginning-of-year equity restated by the U.S. general price level index

and thus is $70 ($400 - [$300 x 110/100] = $400 - $330). Adjusting the reported change in the net investment to a U.S. perspective therefore requires a parity adjustment of $30 ($70 - $40), which represents the product of the difference between local and U.S. inflation for the year (10 percent) and the beginning-of-year net investment (equity) measured in nominal dollars ($300).[5]

75. The translation adjustment and the parity adjustment do not affect assessments of functional currency cash flows. Both of those adjustments are required to adjust the end-of-year net investment and the change in the net investment to U.S. dollar measures, however, and this Statement requires them to be combined for display purposes. If the differential rates of U.S. and local inflation were reflected in the exchange rates (parity), the parity adjustment and the translation adjustment on beginning-of-year net assets would net to zero. The combined amount therefore represents the effect of exchange rate changes in excess of (or less than) that needed to maintain purchasing power parity between the functional currency and the U.S. dollar. In the example introduced in paragraph 66, the end-of-year exchange rate under conditions of parity would be 1FC = $1 x 110/120 = $0.9167. Therefore, a translation adjustment of $(30) (CFC360 x [$1 - 0.9167]) would arise on the restated beginning-of-year equity and would be exactly offset by the parity adjustment of $30. Combining the translation adjustment of $(86)(paragraph 73) and the parity adjustment of $30 yields a dollar loss of $56 that results from the failure of purchasing power parity to hold.

Comparison of Approaches

76. The two approaches to preparing inflation-adjusted current cost information permitted by this Statement produce the following results for the example discussed in paragraphs 67-75:

	Translate-Restate		Restate-Translate	
Beginning-of-year net investment in end-of-year dollars $300 × 110/100		$ 330		$ 330
Purchasing power loss		(10)		(18)
Increase in specific prices	$ 180		$ 180	
Effect of increase in general price level	(20)		(36)	
Excess of increase in specific prices over increase in general price level		160		144
Translation adjustment		(80)		(56)
Increase in net investment in terms of U.S. purchasing power		$ 70		$ 70
End-of-year net investment		$ 400		$ 400

Both approaches provide the same information in total. Moreover, both produce the same nominal increase in specific prices. (Income from continuing operations in nominal units also would be the same.) The difference between them is whether the inflation adjustments to individual components of the current cost information reflect U.S. or local inflation.

Conclusions concerning Inflation-Adjusted Current Cost Information

77. Although some Board members believe the restate-translate approach is preferable because it provides information about both local and U.S. inflation, they are concerned about the implementation costs of an approach that would require the use of multiple functional currency general price level indexes. Accordingly, those Board members believe that for cost-benefit reasons enterprises should be permitted to use the translate-restate approach that involves use of only the U.S. inflation index. The revised Exposure Draft therefore proposed that enterprises be permitted to use either method and specifically asked for comments on the merits of such an option.

78. The majority of the respondents who expressed a view considered it appropriate in an experimental standard to provide enterprises the flexibility to consider cost-benefit implications and to choose between the translate-restate and restate-translate methods. Although many respondents believed that most enterprises would choose the translate-restate method because of its lower implementation cost, some expressed concerns about the potential loss of comparability among enterprises. The Board concluded that the benefits of permitting experimentation with two methods outweigh any potential loss of comparability. The Board believes that conclusion is consistent with other alternatives permitted in Statement 33, such as the option to choose either partial or comprehensive restatement. Therefore, this Statement permits enterprises to use either the translate-restate or restate-translate method. Because a choice is permitted, the method used is required to be disclosed.

Disclosure of Translation and Parity Adjustments

79. Some respondents to the revised Exposure Draft disagreed with the required disclosure of the translation adjustment (if the translate-restate method is used) or the combined translation and parity adjustments (if the restate-translate method is used). They expressed the view that computing those amounts would unduly increase the implementation costs and that the potential usefulness of translation adjustments and parity adjustments had not been demonstrated.

80. The Board believes the discussion and illustrations in paragraphs 67-76 indicate the need to disclose the translation adjustment on a current cost basis. Although translation adjustments do not affect functional currency cash flows, they result from an important type of price change (exchange rate changes) and eventually can have a significant impact on U.S. dollar cash flows. Moreover, the translation adjustment and, under the restate-translate approach, the parity adjustment are required to portray the total change in equity during the year in terms of U.S. purchasing power. The Board recognizes that computation of the translation adjustment will

increase the costs of preparing current cost information for enterprises with many functional currencies. However, Statement 33 emphasizes the appropriateness of reasonable approximations and short-cut methods. Moreover, the exemption from historical cost/constant dollar requirements granted enterprises that measure a significant part of their operations in functional currencies other than the U.S. dollar should at least partly offset the increased costs of preparing current cost information. Accordingly, the Board does not believe required disclosure of translation adjustments will constitute an undue burden.

Functional Currency General Price Level Index

81. The Board concluded that the index to be used in determining constant functional currency amounts should be one that measures the change in the general level of prices in the functional currency environment in a reasonably reliable manner. Some respondents suggested that the Board specify the index to be used for each functional currency. However, the Board believes flexibility is necessary in choosing an appropriate functional currency general price level index. The choice should take into account the availability, reliability, and timeliness of a general price level index and the frequency with which it is adjusted. In providing that flexibility, the Board is aware that comparability among enterprises may be impaired if different enterprises select different indexes for a particular functional currency (other than the U.S. dollar). However, disclosure of the effects of changing prices requires management's judgment in many areas, and the Board believes that allowing flexibility in this area is consistent with the experimental nature of Statement 33.

82. The Board anticipates that an appropriate index of the change in the general price level will be available for most functional currencies. Indexes are published in most countries, and some indexes are periodically published by organizations such as the International Monetary Fund, the Organization for Economic Co-Operation and Development, and the United Nations. However, in some cases indexes may not be available on a timely basis or may not be sufficiently reliable. In those circumstances, management should estimate the change in the general price level.

Five-Year Summary of Selected Financial Data

83. Paragraph 65 of Statement 33 requires that amounts in the five-year summary of selected data be expressed in a unit of constant purchasing power. The initial Exposure Draft indicated that the Board had considered whether prior years' data for foreign functional currency entities in the five-year summary should be restated into (a) units of constant functional currency using the functional currency general price level indexes or (b) constant dollar equivalent units using the Consumer Price Index for All Urban Consumers (CPI(U)). That Exposure Draft required use of the CPI(U) for several reasons, including the fact that use of multiple functional currency indexes might impose significant costs on preparers.

84. Some respondents to both the initial and revised Exposure Drafts favored use of the

functional currency general price level index to restate amounts in the five-year summary. They expressed the view that that approach would be more consistent with the functional currency theory. Although some Board members tend to agree with that view, the Board concluded that use of the CPI(U) should be required. That approach was deemed to be more consistent with the requirement of this Statement that the supplementary current cost information should present the increase or decrease for the year in the net investment in terms of U.S. purchasing power, regardless of whether inflation adjustments to current cost information are based on the translate-restate or the restate-translate approach.

Alternative Approaches Considered

85. The Board considered the possibility of requiring enterprises to continue to present constant dollar information based on the Statement 8 translation procedure and the original provisions of Statement 33. The Board rejected that approach because it not only could be costly but also would retain a measure of income from continuing operations that would be inconsistent with information in the primary financial statements prepared by applying Statement 52.

86. The Board also considered exempting enterprises that use foreign functional currencies for a significant part of their operations from the current cost requirements. The Board recognizes that application of the provisions of this Statement will affect the comparability of the supplementary current cost information prepared before and after its adoption. That discontinuity may impair the usefulness of the supplementary information for discerning trends in the data items, but all accounting changes have that effect. The Board considered whether the discontinuity and possible difficulties for users in reorienting their evaluations to accommodate the new information might cause the costs of the supplementary information to exceed the prospective benefits. However, it decided not to terminate the current cost requirements. Statement 33 is an experiment with alternative measurement systems. Information about the usefulness of supplementary current cost information prepared under the new rules for foreign currency translation is needed to assist the Board in making decisions about the usefulness of that alternative measurement system.

Transition and Effective Date

87. If the experiment with supplementary information about the effects of changing prices is to serve its intended purpose of providing a basis on which to evaluate alternative measurement systems, the Board believes the supplementary current cost information must be prepared on a basis generally consistent with that used in the primary financial statements. Accordingly, this Statement requires restatement of prior years' supplementary information if Statement 52 is applied by restating the primary financial statements for those years.

88. The Board concluded that it can reach an informed decision on the basis of existing information without a public hearing and that the effective date specified in paragraph 20 is advisable in the circumstances.

Footnotes

FAS70, Footnote 1--FASB Statements No. 39, *Financial Reporting and Changing Prices: Specialized Assets--Mining and Oil and Gas,* No. 40, *Financial Reporting and Changing Prices: Specialized Assets--Timberlands and Growing Timber*, No. 41, *Financial Reporting and Changing Prices: Specialized Assets--Income-Producing Real Estate,* No. 46, *Financial Reporting and Changing Prices: Motion Picture Films,* and No. 69, *Disclosures about Oil and Gas Producing Activities.*

FAS70, Footnote 2--*Functional currency* is defined in paragraph 5 of Statement 52 as the currency of the primary economic environment in which an entity operates.

FAS70, Footnote 3--Paragraph 59 of Statement 33, as amended by this Statement, provides guidance concerning remeasurement of current cost amounts initially measured in a currency other than the functional currency. This Statement does not change the provisions of paragraphs 57, 58, or 60 and the discussion in paragraph 181 of Statement 33 concerning initial measurement of current cost amounts.

FAS70, Appendix B, Footnote 4--Throughout the illustrations in this Statement, current cost information is displayed in a reconciliation-of-equity format. Neither Statement 33 nor this Statement requires use of that format for reporting purposes, although some respondents expressed the view that disclosure of a reconciliation of equity would help users to understand the relationships among the various pieces of information disclosed. Under the usual Statement 33 display, beginning-of-year net assets measured in current-year dollars would appear only in the five-year summary. The purpose of the format used in the illustrations is to demonstrate the similarities and differences of the various methods.

FAS70, Appendix B, Footnote 5--If measures are made in end-of-year constant functional currency, it might be considered appropriate to translate the components of change in net assets during the year at the end-of-year exchange rate rather than the average rate as this Statement requires. However, the Board decided not to require use of end-of-year rates because it would necessitate retranslating revenues and expenses at rates different from those used in the primary financial statements and thus would be more costly. Moreover, use of end-of-year rates would include a part of the effect of exchange rate changes during the year in individual line items rather than with the translation adjustment.