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An Examination of the Market Reactions
Associated with SFAS #8 and the Events
Leading Up to SFAS #52

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An Examination of the Market Reactions Associated with SFAS #8 and the Events Leading Up to SFAS #52

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Comments welcome -- please do not quote.

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Abstract

Previous market based research has failed to obtain significant evidence that the market reacted negatively to the issuance of SFAS #8. Using standardized abnormal returns this study reexamines this issue. In addition, the events of the promulgation process leading to SFAS #52 are also studied. The accounting method used prior to SFAS #8 is determined and its effects on the market reactions are investigated.
1.0 Introduction

This study has four major purposes: (1) reexamine the market reactions associated with SFAS #52, (2) examine the reactions of the market to SFAS #52, (3) determine the events in the promulgation process leading up to SFAS #52 to which the market significantly reacts, and (4) determine the extent to which the pre-SFAS #8 method of accounting for foreign currency translation impacts the results of (1), (2), and (3) above.

A reexamination of the market reactions to SFAS #52 is motivated by the lack of significant previous evidence demonstrating a significant negative market reaction. Ziebart [1985] demonstrates that when the market reaction is fairly weak, the use of standardized abnormal returns to control for the level of noise in the market model will enhance the ability to find a significant reaction. Accordingly, this study employs standardized abnormal returns.

The second major research purpose is motivated by the lack of research evidence regarding the effect, if any, that the switch to SFAS #52 had on the market.

The third purpose is motivated by the promulgation process leading up to SFAS #52 having a number of significant events spread over a fairly long period of time. These events were both favorable and unfavorable regarding a possible change in SFAS #8. Assessment of the market reactions to these events may provide insight into the market's perception of the relative importance each event may play in the promulgation process. This may also assist in the determination of the appropriate time period one
should focus on when trying to test the market's reaction to a change in accounting policy.

The last purpose of this project is motivated by the issue regarding the extent to which the pre-SFAS #52 method of accounting impacts the associated market reaction. One would expect that the reaction to SFAS #8 and to SFAS #52 for an individual firm should be dependent upon the method actually used by the firm prior to SFAS #8. In addition, controlling for the pre-SFAS #8 method of accounting should enhance the power of this study to find significant market reactions.

SFAS #8 forced many multi-national corporations (MNCs) to include gains or losses on foreign currency translation in their reported income. To overcome these adverse effects on income, some corporations may have undertaken costly hedging activities. In 1981 the Financial Accounting Standards Board revised the accounting practice for foreign currency translation and eliminated the pressure on MNCs to hedge their gains or losses due to changes in exchange rates. This change to SFAS #52 and the promulgation process leading up to its adoption should be associated with positive market reactions, if SFAS #8 negatively affected the market. If SFAS #8 did not negatively impact the market then there is no reason to expect any reaction to SFAS #52.

The time period leading up to the adoption of SFAS #52 encompassed a number of events by the Financial Accounting Standards Board which exemplify the promulgation process involved when an accounting standard is changed. From December 1974 through December 1981 the FASB (1) issued an exposure draft of
SFAS #8, (2) issued SFAS #8, (3) voted not to reconsider the issue, (4) expressed interest in research regarding foreign currency translation methods, (5) sponsored research, (6) proposed a change in SFAS #8, (7) solicited comments, (8) announced the results of its research, (9) voted to reconsider SFAS #8, (10) issued an exposure draft of SFAS #52, (11) revised the exposure draft, and (12) finally issued SFAS #52. These actions of the FASB during this seven year period warrant investigation regarding their perceived impact by the financial market. An analysis of the market reactions to each of these events should allow assessment of the perceived importance of each of the steps in the promulgation process by the financial market. The expectation is to find significant negative market reactions regarding the adoption of SFAS #8 as well as the vote by the FASB not to reconsider SFAS #8. It is also expected that the results will indicate significant positive reactions associated with the events which led to SFAS #52.

The results of the analyses, based on standardized average cumulative abnormal returns for a sample of 286 MNCs, indicate significant market reactions to the issuance of SFAS #8, the vote not to reconsider SFAS #8, the announcement that the FASB is sponsoring research on foreign currency translation methods, the announcement by the Wall Street Journal that the FASB is proposing a technical change, the announcement that FASB is soliciting comments, the announcement of the tentative changes, and the issuance of the exposure draft for FAS #52. The results also indicate that the market did not significantly react to the
issuance of the exposure draft of FAS #8, the announcement that the FASB is interested in research regarding foreign currency translation, and the announcement of the FASB sponsored research and the formal vote to reconsider SFAS #8. In addition, the results indicate that the pre-SFAS #8 method of accounting for foreign currency translation does not significantly impact the market reaction on the individual security level.

In the next section a history of the events investigated as well as a summary of previous research regarding the impact of SFAS #8 are provided. The third section contains a description of the sample firms and their foreign currency translation methods prior to SFAS #8. Also included in the third section is a description of the method for computing abnormal returns. In the fourth section a description of the analyses and results is provided. The last section contains a brief summary of the findings and their implications.

2.0 History of Events Leading to SFAS #52

From the issuance of an exposure draft of SFAS #8 in December 1974 through the issuance of an exposure draft of SFAS #52 in 1980 the FASB provided mixed signals regarding their favored method of reporting foreign exchange translation. SFAS #8 was issued in 1975 to alleviate the problems associated with the various methods of foreign currency translation. It allowed only the temporal method to be used and required translation gains and losses to be recognized immediately in the income statement. SFAS #8 was met with opposition in the financial community since it caused income figures to be highly vulnerable
to changes in foreign exchange rates. This prompted many multinational corporations to undertake costly hedging activities in order to offset these possible income statement effects. In effect, MNCs undertook hedging practices which had real economic costs in order to offset potential "paper" profits or losses which resulted from the foreign currency translation. Massaro [1978] surveyed 117 corporate executives familiar with SFAS #8 (after two years of experience with it) and found 60 executives favoring repeal with 24 executives favoring substantial modification or amendment.

Numerous other researchers examined the effect of SFAS #8 on the exchange risk management activities of MNCs and found evidence that SFAS #8 caused management of MNCs to overemphasize reported earnings. Using various research approaches Evans, Floks, and Jilling [1978], Shank, Dillard, and Murdock [1979], Norsicato [1980], and Wilner [1982] found evidence that SFAS #8 adversely affected the management of MNCs.

Given this documented effect on management behavior one would expect to find significant negative market reactions to the issuance of SFAS #8; yet no previous market-based studies have found significantly strong evidence of a negative market reaction. Dukes [1978] found no significant difference between returns of MNCs and returns of other domestic firms during three periods which included the issuance of SFAS #8. Markin [1978] found a significant effect but only when the sample was based on MNCs whose earnings were extremely impacted. Shank, Dillard, and Murdock [1979] found that all MNCs were negatively impacted to some extent but a comparison to unaffected firms did not find a
significant difference.

Given the adverse effects of SFAS #8 on foreign exchange risk practices of MNCs, the financial community was displeased with SFAS #8. On April 29, 1976, in the midst of negative popular feelings regarding SFAS #8, the FASB announced it had voted not to reconsider SFAS #8. This action should have reinforced the perceived permanence of SFAS #8 and its impetus for foreign exchange hedging activities. Given real costs to hedge against "paper" losses one would expect a negative market reaction since it was apparent that the hedging practices would continue.

A year later, April 19, 1977, the Wall Street Journal carried a story announcing the FASB's interest in research regarding foreign currency translation methods. To some extent, this was an informal indication that the FASB was interested in possible modifications of SFAS #3. A positive reaction should be observed if the market perceived that the FASB was going to re-examine SFAS #8 and possibly change to a method which would not prompt speculation and hedging activities. Any event by the FASB or the financial press which increased the perceived probability by the market of a change in SFAS #3 should be accompanied by a positive reaction.

The announcement in the Wall Street Journal on July 8, 1977 that the FASB was sponsoring research further implied that the FASB was considering a re-examination of foreign currency translation methods. However, given a reaction by the market to the announcement of the FASB's interest in research, the effect
of sponsoring the research should be minimal.

The first direct statement regarding a possible modification of SFAS #8 occurred on October 10, 1977 when the Wall Street Journal carried a story which announced that the FASB was considering a technical change in SFAS #8. A strong positive market reaction to this announcement is expected since it is the first explicit acknowledgement that SFAS #8 would be modified. On June 2, 1978 the FASB announced its solicitation of comments regarding SFAS #8 and foreign exchange reporting practices. Again, observation of a positive reaction is expected since this implies that public feedback may be used in developing an alternative to SFAS #8. During January, 1979 the FASB announced that it was going to reconsider SFAS #8 and formally acknowledged that SFAS #8 was likely to be changed. Also during January, 1979 the FASB announced the results of its sponsored research.

The Wall Street Journal reported the FASB's tentative agreement regarding changes in the accounting for foreign currency translation on April 11, 1980. On August 28, 1980 an exposure draft of SFAS #52 was released and the first official release of its contents was made. Table 1 contains a chronicle of the events and the dates of their release in the Wall Street Journal (WSJ).

INSERT TABLE 1

3.0 A Description of the Sample Firms and the Method of Computing Abnormal Returns

An initial sample of 292 firms having the requisite return data and information which allows assessment of the pre-SFAS #8
reporting method is chosen from all the United States based MNCs listed in Stopford's *The World Dictionary of Multinational Enterprises 1982-1983* and the 479 MNCs used in the Dukes [1978] study. Six firms are deleted due to data difficulties to yield a final sample of 286 MNCs. Appendix A contains a listing of the sample firms.

An analysis of the pre-SFAS #8 foreign currency reporting practices of the initial sample is conducted by referring to *Disclosure Journal*. The firms are classified into nine groups based on their method of foreign currency reporting. One major classification scheme is apparent regarding the measurement basis; use of the current/noncurrent method or the monetary/nonmonetary method. A second major classification scheme is based on the disposal of foreign currency gains and losses; either the direct write-off method or the deferral method. Table 2 lists the nine pre-SFAS #8 accounting method groups and the numbers of firms in each group.

**INSERT TABLE 2**

For each of the events in Table 1, except for 8 and 9 which are combined, a standardized average cumulative abnormal return (SACAR) is computed. The standardized average cumulative abnormal return for each event is measured over a period six weeks prior to the week of the event through the week subsequent to the week of the event. This is accomplished by estimating a market model for the 52 weeks prior to the test period for each of the events studied. Daily CRSP returns are aggregated to form weekly returns and they are regressed against the market returns to estimate the parameters of a market model for each firm. The
estimated parameters are then used to compute an abnormal weekly return for each of the weeks in the test period. The weekly abnormal returns are standardized to provide standardized abnormal returns. The weekly standardized abnormal returns are then summed cross-sectionally (for the particular sample analyzed) to provide the standardized average abnormal return. The standardized average cumulative abnormal return is computed as the adjusted sum of the standardized average abnormal returns for the eight weeks in the test period. (For a description of the standardization process and its motivation see Patell [1976], Hong, Kaplan, and Mandelker [1978], and Ziebart [1985].)

4.0 Analyses

The first analysis focuses on the standardized average cumulative abnormal return across all of the sample firms for each of the 10 event periods. Table 3 provides the standardized average cumulative abnormal returns for each of the 10 test periods.

**INSERT TABLE 3**

A priori one would expect negative abnormal returns associated with SFAS #8. The results of this study confirm this relationship for test period 2, the issuance of SFAS #8. However, no significant reaction to the exposure draft of SFAS #8 is observed. Given the observation of a significant negative reaction to SFAS #8 (test period 2), a negative market reaction is expected to the announcement that the FASB had voted not to reconsider SFAS #8 (test period 3). The results support this expectation of a negative market reaction at a fairly high level
of significance.

Test period 4, which focuses on the FASB's announcement of its interest in research regarding foreign currency translation methods, has no significant price reaction. This indicates that the market does not perceive this to be a significant event that may lead to a change in SFAS #8. A positive market reaction is expected to accompany the announcement that the FASB is sponsoring research on foreign currency translation (test period 5) but the empirical results display a significant negative reaction. A significant positive reaction is found for test period 6. Test period 6 focuses on the FASB's proposal for a technical change in SFAS #8; a positive reaction is expected since this is the first formal acknowledgement by the FASB that it may reconsider SFAS #8. A positive reaction is also observed for the test period regarding the solicitation of comments (test period 7). Test period 8, which combines the announcement of the reconsideration of SFAS #8 and the research results, has no significant reaction. This could be expected since these events probably do not change the market's beliefs regarding a change in SFAS #8.

The next test period (period 9), which measures the market reaction to the Wall Street Journal announcement of a tentative agreement, has a significant negative SACAR. The final test period, which is the release of the exposure draft for SFAS #52, results in a significant positive reaction.

All of the firms are classified regarding their pre-SFAS #8 method of foreign currency translation into three groups based on
their measurement method and three groups based on their method for disposition of gains or losses. An analysis of variance (ANOVA) is conducted on the standardized cumulative abnormal returns (SCAR) of each of the sample firms to determine if the pre-SFAS #8 accounting method impacts the observed market reaction for each of the test periods. The results of the ANOVA analyses are provided in Table 4.

**INSERT TABLE 4**

The pre-SFAS #8 accounting method has a mixed effect on the magnitude of the standardized cumulative abnormal return in five of the test periods. Overall, the combined main effects of the measurement method and the disposal method are significant for two of the periods, the individual effects of the measurement method and the disposal method are significant in three instances, and the interaction effects are significant for three of the ten test periods. For test period 2, the issuance of SFAS #8, the interaction effect of the measurement method and the disposal method has a significant effect on the abnormal return metric. This interaction effect is also statistically significant for period 5 (FASB sponsors research) and period 7 (FASB solicits comments). The measurement method has a significant effect during period 8 (vote to reconsider) and period 9 (the Wall Street Journal report of a tentative change). During the other test periods the pre-SFAS #8 accounting method has no effect on the market reactions. These results do not strongly or consistently support the notion that the pre-SFAS #8 method of accounting has an effect on the sign and magnitude of the observed market reactions.
To more fully analyze the effect of the pre-SFAS #8 measurement method on the market's reaction to the events leading up to SFAS #52, the firms are divided into three groups based on their pre-SFAS #8 measurement method:

1. current/noncurrent
2. monetary/nonmonetary
3. hybrid.

For each of the three groups the standardized average cumulative abnormal return is computed for each of the ten test periods. These results are presented in Table 5.

**Insert Table 5**

The signs of the standardized average cumulative abnormal returns (SACARs) are consistent across all three groups in seven of the ten test periods. In the three test periods in which the SACARs are not consistent, only the results of test period 8 have a significant value. The current/noncurrent measurement group has statistically significant SCARS in seven of the ten test periods. The monetary/nonmonetary group has significant SACARs in only two of the test periods and they are periods in which the results for the current/noncurrent group are insignificant. For the hybrid group there are four test periods of significant SACARs.

Only in the first test period are all the SACARs either significant or non-significant for all three groups. In no period are the SACARs statistically significant for all three groups and in the periods in which there are two significant SACARs the signs are consistent. Overall, the consistency of
the signs of the SACARs seen to imply that the pre-SFAS #8 measurement method does not cause the signs of the market reactions to vary. This is somewhat surprising since one would expect different reactions for firms in which the pre-SFAS #8 method is consistent with the required SFAS #8 method when compared to firms in which the pre-SFAS #8 method is different than the required method.

To analyze the effect of the pre-SFAS #8 method of disposal of the gains or losses from the foreign currency translation, the sample firms are divided into three groups:

1. direct write-off
2. deferral
3. hybrid.

For each of the groups the SACAR is computed for each of the ten test periods. Table 6 contains the results.

**INSERT TABLE 6**

The signs of the SACARs are consistent across the three groups in seven of the ten test periods. The direct write-off group has a significant SACAR in seven of the ten periods while the deferral group is only significant in the last test period. The hybrid method group results show significant reactions in test periods 7 and 10. All three groups consistently show no reaction in test periods 1, 4, and 8 and they all show a positive reaction in period 10. These results also support the notion that the pre-SFAS #8 method does not significantly impact the observed market reaction.

The results of the cross-sectional analyses provide evidence that the financial markets did react to the promulgation process
associated with SFAS #8 and SFAS #52. The SACARs of the total sample are significant in seven of the ten test periods and the signs of the results are in the expected direction in all but two of the test periods. The analyses of the effects of the pre-SFAS #8 reporting practices provide evidence that the market reactions do not vary depending upon either the measurement method or the method for disposition of the gains or losses used prior to SFAS #8.

To further investigate the three periods in which no significant market reaction is observed (test periods 1, 4, and 8), the correlations are computed between the individual firm standardized cumulative abnormal returns (SCARs) of these periods of insignificant reactions and periods in which significant reactions are observed. This allows an assessment of the price reversal effects and the extent to which the SCARs of the periods of insignificant results are consistent with the periods in which a significant market reaction is observed.

Given the expectation of a negative reaction to the exposure draft of SFAS #8 and the observed (in conformance with our expectations) positive reactions in test periods 6, 7, and 10, a negative correlation between the SCARs is expected. The correlations between the standardized cumulative abnormal returns for each of the pairs of test periods are provided in Table 7. Also shown in Table 7 are the correlations within each measurement group and disposal of gain or loss group.

**INSERT TABLE 7**

Only the correlation between test period 1 and 7 is
statistically significant for the firms as a whole. The correlations based on the measurement method groups and the disposal method groups for these periods are only significant for the hybrid group. The correlation between test periods 1 and 10 for the hybrid disposal group is also significant.

The correlations between the SCARs of test period 4 (where an overall insignificant SACAR is observed) and test periods 2 and 3 are provided in Table 8.

**INSERT TABLE 8**

The correlation results support the notion of a price reversal effect between period 4 and periods 2 and 3 (the test periods in which significant negative abnormal returns are observed).

A significant market reaction is not observed during period 3 so the correlation between the SCARs of period 8 and period 10 is computed. A priori one would expect a positive correlation between the two periods if period 8 did indeed experience a positive market reaction. The computed correlations are provided in Table 9.

**INSERT TABLE 9**

A significant positive correlation is observed between periods 8 and 10. These results support the notion that even though no significant positive abnormal market reaction is observed during period 8 the market reacted on a basis consistent with a positive reaction.

5.0 **Summary and Conclusions**

In this study 3 event periods associated with the issuance of SFAS #8 are investigated and significant negative market
reactions are observed. Also investigated are 7 event periods regarding the promulgation process which led to SFAS #52 and significant market reactions are observed for five of the periods for the whole sample of firms studied. Using a price reversal methodology the results also indicate that, in two of the three periods in which no significant market reaction is observed, the abnormal returns are significantly correlated in the expected direction with the abnormal returns of the test periods in which significant market reactions are observed.

The results also indicate that the pre-SFAS #8 method of reporting does not consistently affect the market reactions associated with either SFAS #8 or SFAS # 52. Surprisingly, most of the observed significant market reactions related to SFAS #52 occur in the current/noncurrent measurement method group (firms which used the current/noncurrent method prior to SFAS #8) and in the direct write-off disposal method group. These two groups were using methods prior to SFAS #8 which were most like the requirement of SFAS #8. SFAS #8 should have affected these groups the least. Likewise, most of the significant market reactions associated with the SFAS #52 events are found for these two groups.
References


Appendix A: Sample Firms

ACF Industries Incorporated
AMF Incorporated
Abbott Labs
Acme Cleveland Corporation
Alberto Culver Company
Allis Chalmers Corporation
Amex Incorporated
Amerac Corporation
Amerada Hess Corporation
American Brands Incorporated
American Can Company
American Cyanamid Company
American Hoist & Derrick Company
American Hospital Supply Corporation
American Std Incorporated
American Sterilizer Company
AMF Incorporated
Ampco-Pittsburgh Corporation
Amsted Industries Incorporated
Anchor Hocking Corporation
Armstrong World Industries Incorporated
ARO Corporation
Avon Products Incorporated
Baker International Corporation
Bangor Punta Corporation
Bausch & Lomb Incorporated
Baxter Travenol Labs Incorporated
Beatrice Foods Company
Becton Dickinson & Company
Bell & Howell Company
Bemis Incorporated
Bendix Corporation
Berkey Photo Incorporated
Black & Decker Manufacturing Company
Blue Bell Incorporated
Boise Cascade Corporation
Borden Incorporated
Borg Warner Corporation
Braniff Corporation
Bristol Myers Company
Brown & Sharpe Manufacturing Company
Brunswick Corporation
Bucyrus Erie Company
Burndy Corporation
Burroughs Corporation
CBS Incorporated
CPC International Incorporated
CTS Corporation
Cadence Industries Corporation
Campbell Soup Company
Campbell Taggart Incorporated
Canadian Pacific Limited
Carter Wallace Incorporated
Castle & Cooke Incorporated
Caterpillar Tractor Company
Celanese Corporation
Cessna Aircraft Company
Champion International Corporation
Chesebrough Ponds Incorporated
Chicago Pneumatic Tool Company
Chris Craft Industries Incorporated
Chrysler Corporation
Cincinnati Milacron Incorporated
City Investing Company
Clark Equipment Company
Cleveland Cliffs Iron Company
Cluett Peabody & Company Incorporated
Coca-Cola Company
Colgate Polmolive Company
Collins & Aikman Corporation
Columbia Pictures Industries Incorporated Del
Combustion Engine Incorporated
Consolidated Foods Corporation
Control Data Corporation Del
Cooper Industries Incorporated
Copperweld Corporation
Corning Glass Works
Crompton & Knowles Corporation
Crown Cork & Seal Incorporated
Crown Zellerbach Corporation
Cummins Engine Incorporated
Curtiss Wright Corporation
Deere & Company
Dentsply International Incorporated
Diamond International Corporation
Diamond Shamrock Corporation
Diebold Incorporated
Digital Equipment Corporation
Dover Corporation
Dow Chemical Company
Dresser Industries Incorporated
Du Pont
Echlin Incorporated
Electronic Association Incorporated
Elgin National Industries Incorporated
Emerson Electric Company
Emhart Corporation VA
Ethyl Corporation
Evans Products Company
Excello Corporation
Exxon Corporation
FMC Corporation
Federal Mogul Corporation
Ferro Corporation
Firestone Tire & Rubber Company
First Interstate Bancorp
Foote Cone & Belding Communications
Ford Motor Company Del
Foster Wheeler Corporation
Foxboro Company
GAF Corporation
General Dynamics Corporation
General Electric Company
General Foods Corporation
General Mills Incorporated
General Motors Corporation
General Refractories Company
General Signal Corporation
General Tire & Rubber Company
Genesco Incorporated
Getty Company
Goodrich B F Company
Goodyear Tire & Rubber Company
Grace W R & Company
Great Atlantic & Pacific Tea Incorporated
Greyhound Corporation
Golf & Weston Industries Incorporated
Gulton Industries Incorporated
Halliburton Company
Harsco Corporation
Hazeltine Corporation
Heinz PJ Company
Helene Curtis Industries
Heller Walter E International Corporation
Helmerich & Payne Incorporated
Hercules Incorporated
Heublein Incorporated
Hewlett Packard Company
Holiday Inns Incorporated
Homestake Manufacturing Company
Honeywell Incorporated
Hoover Universal Incorporated
Household International Corporation
Hughes Tool Company
IC Industries Incorporated
INA Corporation
Interlake Incorporated
International Business Machines
International Flavors & Fragrance
International Harvester Company
International Minerals & Chemicals
International Multifoods Corporation
International Paper Company
International Telephone & Telegraph Corporation
Interpace Corporation
Johnson & Johnson
Johnson Controls Incorporated
Jonathan Logan Incorporated
Joy Manufacturing Company
Kaiser Aluminum & Chemical Corporation
Kaiser Cement Corporation
Kerr McGee Corporation
Kimberly Clark Corporation
Koppers Incorporated
LFE Corporation
Lear Siegler Incorporated
Lehigh Valley Industries Incorporated
Levi Strauss & Company
Libbey Owens Ford Company
Lilly Eli & Company
Lionel Corporation
Litton Industries Incorporated
Loews Corporation
Lone Star Industries Incorporated
Louisiana Land & Expl Company
Lubrizol Corporation
Lukens Incorporated
MCA Incorporated
Manville Corporation
Marathon Oil Company
Marine Midland Bks Incorporated
Martin Marietta Corporation
McDermott Incorporated
McDonnell Douglas Corporation
McGraw Edison Company
McGraw Hill Incorporated
McNeil Corporation
Mead Corporation
Merck & Company Incorporated
Milton Bradley Company
Minnesota Mng & Mfg Company
Mobil Corporation
Mohasco Corporation
Monarch Machine Tool Company
Monsanto Company
Motorola Incorporated
NL Industries Incorporated
Nalco Chemical Company
National Distillers & Chemical Corporation
National Std Company
Newmont Mining Corporation
Northrop Corporation
Northwest Airlines Incorporated
Norton Company
Norton Simon Incorporated
Occidental Petroleum Corporation
Ogden Corporation
Olin Corporation
Outboard Marine Corporation
Owens Corning Fiberglass Corporation
PPG Industries Incorporated
PSA Incorporated
Pacific Tin Cons Corporation
Pan American World Airways Incorporated
Parker Hannifin Corporation
Pennwalt Corporation
PepsiCo Incorporated
Perkin Elmer Corporation
Philip Morris Incorporated
Philips Petroleum Company
Pitney Bowes Incorporated
Polaroid Corporation
Portec Incorporated
Proctor & Gamble Company
Public Stock Industries Incorporated
Pueblo International Incorporated
Purolator Incorporated
Quaker Oats Company
Quaker State Oil Refining Corporation
Questor Corporation
Raytheon Company
Revere Copper & Brass Incorporated
Revlon Incorporated
Rexnord Incorporated
Reynolds R J Industries Incorporated
Reynolds Metals Company
Robertshaw Ctls Company
Robins A H Incorporated
Rockwell International Corporation
Rohm & Haas Company
Rorer Group Incorporated
SCM Corporation
St. Regis Paper Company
Sanders Association Incorporated
Sargent Welch Scientific Company
Schering Plough Corporation
Scott Paper Company
Scovill Incorporated
Sheller Globe Corporation
Sherwin Williams Company
Signal Cos Incorporated
Signode Corporation
Smith A O Corporation
Smith Kline Beckman Corporation
Sperry Corporation
Square D Company
Standard Oil Company California
Stanley Works
Sterling Drug Incorporated
Stewart Warner Corporation
Sun Chemical Corporation
Superior Oil Company
Sybron Corporation
TRW Incorporated
Tenneco Incorporated
Texaco Incorporated
Textron Incorporated
Thiokol Corporation
Time Incorporated
Timken Company
Union Carbide Corporation
Union Oil Company California
Uniroyal Incorporated
United Brands Company
United States Steel Corporation
Universal Leaf Tobacco Incorporated
Upjohn Company
Vendo Company
Warnaco Incorporated
Warner Lambert Company
Westinghouse Electric Corporation
Westvaco Corporation
Weyerhaeuser Company
Wheelabrator Frye Incorporated
Whittaker Corporation
Williams Cos
Wometco Enterprises Incorporated
Wrigley William Jr. Company
Zenith Radio Corporation
Table 1. Events Leading Up to SFAS #52

<table>
<thead>
<tr>
<th>Event Date</th>
<th>Event Description</th>
</tr>
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<tbody>
<tr>
<td>December 31, 1974</td>
<td>Exposure draft of SFAS #8</td>
</tr>
<tr>
<td>October 6, 1975</td>
<td>SFAS #8</td>
</tr>
<tr>
<td>April 29, 1976</td>
<td>FASB votes not to reconsider SFAS #8</td>
</tr>
<tr>
<td>April 19, 1977</td>
<td>FASB announces its interest in research regarding foreign currency translation</td>
</tr>
<tr>
<td>July 8, 1977</td>
<td>FASB announces it will sponsor research regarding foreign currency translation</td>
</tr>
<tr>
<td>November 10, 1977</td>
<td>FASB proposes a technical change in SFAS #8</td>
</tr>
<tr>
<td>June 2, 1973</td>
<td>FASB solicits comments regarding a change in SFAS #8</td>
</tr>
<tr>
<td>January 18, 1979</td>
<td>FASB announces results of its sponsored research</td>
</tr>
<tr>
<td>January 31, 1979</td>
<td>FASB votes to reconsider SFAS #8</td>
</tr>
<tr>
<td>April 1, 1980</td>
<td>Wall Street Journal reports the tentative changes</td>
</tr>
<tr>
<td>August 28, 1980</td>
<td>FASB releases an exposure draft of SFAS #52</td>
</tr>
</tbody>
</table>
Table 2. Number of Sample Firms Classified by Foreign Currency Method Used Prior to SFAS #8

| Current/Noncurrent with Direct Write Off | 91 firms |
| Current/Noncurrent with Deferral | 35 firms |
| Current/Noncurrent with Deferral of Gains and Write Off of Losses | 35 firms |
| Monetary/Nonmonetary with Direct Write Off | 29 firms |
| Monetary/Nonmonetary with Deferral | 13 firms |
| Monetary/Nonmonetary with Deferral of Gains and Write Off of Losses | 2 firms |
| Hybrid Method with Direct Write Off | 55 firms |
| Hybrid Method with Deferral | 21 firms |
| Hybrid Method with Deferral of Gains and Write Off of Losses | 9 firms |
Table 3. Standardized Average Cumulative Abnormal Returns for the 10 Test Periods

<table>
<thead>
<tr>
<th>Event and Test Period</th>
<th>SACAR</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exposure draft of FAS #8</td>
<td>.9837</td>
<td></td>
</tr>
<tr>
<td>2. SFAS #8</td>
<td>-2.6712</td>
<td>&lt;.01</td>
</tr>
<tr>
<td>3. FASB votes not to reconsider SFAS #8</td>
<td>-4.1248</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>4. FASB announces its interest in research regarding foreign currency translation</td>
<td>1.8719</td>
<td></td>
</tr>
<tr>
<td>5. FASB announces it will sponsor research regarding foreign currency translation</td>
<td>-4.1682</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>6. FASB proposes a technical change in SFAS #8</td>
<td>3.0705</td>
<td>&lt;.01</td>
</tr>
<tr>
<td>7. FASB solicits comments regarding a change in SFAS #8</td>
<td>3.6091</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>8. FASB announces results of its sponsored research and FASB votes to reconsider SFAS #8</td>
<td>.0203</td>
<td></td>
</tr>
<tr>
<td>9. FASB releases a announcement of a tentative change</td>
<td>-3.2929</td>
<td>&lt;.01</td>
</tr>
<tr>
<td>10. SFAS #52 exposure draft</td>
<td>6.5833</td>
<td>&lt;.001</td>
</tr>
</tbody>
</table>
Table 4. ANOVA Results

<table>
<thead>
<tr>
<th>Test Period</th>
<th>Main Effects (Combined)</th>
<th>Measurement Effects</th>
<th>Disposition of Gain/Loss Effect</th>
<th>Interaction Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistics (significance in parentheses)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>.502</td>
<td>.288</td>
<td>.822</td>
<td>.034</td>
</tr>
<tr>
<td></td>
<td>(.73)</td>
<td>(.75)</td>
<td>(.44)</td>
<td>(.99)</td>
</tr>
<tr>
<td>2.</td>
<td>1.394</td>
<td>2.088</td>
<td>.744</td>
<td>3.181</td>
</tr>
<tr>
<td></td>
<td>(.24)</td>
<td>(.13)</td>
<td>(.48)</td>
<td>(.01)</td>
</tr>
<tr>
<td>3.</td>
<td>1.650</td>
<td>2.192</td>
<td>1.185</td>
<td>.063</td>
</tr>
<tr>
<td></td>
<td>(.16)</td>
<td>(.11)</td>
<td>(.31)</td>
<td>(.99)</td>
</tr>
<tr>
<td>4.</td>
<td>1.308</td>
<td>.794</td>
<td>1.699</td>
<td>1.769</td>
</tr>
<tr>
<td></td>
<td>(.27)</td>
<td>(.45)</td>
<td>(.19)</td>
<td>(.14)</td>
</tr>
<tr>
<td>5.</td>
<td>.481</td>
<td>.838</td>
<td>.123</td>
<td>3.523</td>
</tr>
<tr>
<td></td>
<td>(.75)</td>
<td>(.43)</td>
<td>(.88)</td>
<td>(.01)</td>
</tr>
<tr>
<td>6.</td>
<td>1.396</td>
<td>.949</td>
<td>1.827</td>
<td>.927</td>
</tr>
<tr>
<td></td>
<td>(.24)</td>
<td>(.39)</td>
<td>(.16)</td>
<td>(.45)</td>
</tr>
<tr>
<td>7.</td>
<td>1.181</td>
<td>.753</td>
<td>1.631</td>
<td>2.191</td>
</tr>
<tr>
<td></td>
<td>(.32)</td>
<td>(.47)</td>
<td>(.20)</td>
<td>(.07)</td>
</tr>
<tr>
<td>8.</td>
<td>2.150</td>
<td>3.063</td>
<td>.945</td>
<td>.220</td>
</tr>
<tr>
<td></td>
<td>(.08)</td>
<td>(.05)</td>
<td>(.39)</td>
<td>(.93)</td>
</tr>
<tr>
<td>9.</td>
<td>2.910</td>
<td>3.142</td>
<td>2.431</td>
<td>1.403</td>
</tr>
<tr>
<td></td>
<td>(.02)</td>
<td>(.05)</td>
<td>(.09)</td>
<td>(.23)</td>
</tr>
<tr>
<td>10.</td>
<td>.986</td>
<td>1.248</td>
<td>.451</td>
<td>.749</td>
</tr>
<tr>
<td></td>
<td>(.42)</td>
<td>(.29)</td>
<td>(.64)</td>
<td>(.56)</td>
</tr>
</tbody>
</table>
Table 5. Standardized Average Cumulative Abnormal Returns for Pre-SFAS #8 Measurement Method Groups

<table>
<thead>
<tr>
<th>Test Period</th>
<th>Current/Noncurrent (n=155)</th>
<th>Monetary/Nonmonetary (n=44)</th>
<th>Hybrid (n=87)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.8777</td>
<td>-.1065</td>
<td>.6830</td>
</tr>
<tr>
<td>2.</td>
<td>-2.4275*</td>
<td>-1.7093</td>
<td>-.3908</td>
</tr>
<tr>
<td>3.</td>
<td>-3.9813**</td>
<td>-.1140</td>
<td>-2.0674*</td>
</tr>
<tr>
<td>4.</td>
<td>2.0513*</td>
<td>.7615</td>
<td>.1118</td>
</tr>
<tr>
<td>5.</td>
<td>-3.0749**</td>
<td>-.6022</td>
<td>-3.0165**</td>
</tr>
<tr>
<td>6.</td>
<td>1.6404</td>
<td>2.2721*</td>
<td>1.9731</td>
</tr>
<tr>
<td>7.</td>
<td>2.3060*</td>
<td>.7033</td>
<td>2.9575**</td>
</tr>
<tr>
<td>8.</td>
<td>1.5185</td>
<td>-1.8795</td>
<td>-.6752</td>
</tr>
<tr>
<td>9.</td>
<td>-4.2435**</td>
<td>.6545</td>
<td>-.7499</td>
</tr>
<tr>
<td>10.</td>
<td>5.6129**</td>
<td>1.1152</td>
<td>3.6760**</td>
</tr>
</tbody>
</table>

significance level

**<.01
*<.05


Table 6. Standardized Average Cumulative Abnormal Returns for the Pre-SFAS #8 Disposal of Gains or Losses Groups

<table>
<thead>
<tr>
<th>Test Period</th>
<th>Direct Write-Off (n=169)</th>
<th>Deferral (n=69)</th>
<th>Hybrid (n=48)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>.8010</td>
<td>1.111</td>
<td>-.4417</td>
</tr>
<tr>
<td>2.</td>
<td>-2.5948**</td>
<td>-.8487</td>
<td>-.6429</td>
</tr>
<tr>
<td>3.</td>
<td>-3.9283**</td>
<td>-.9472</td>
<td>-1.5237</td>
</tr>
<tr>
<td>4.</td>
<td>.4470</td>
<td>1.8571</td>
<td>1.5594</td>
</tr>
<tr>
<td>5.</td>
<td>-3.5020**</td>
<td>-1.6175</td>
<td>-1.6496</td>
</tr>
<tr>
<td>6.</td>
<td>3.3905**</td>
<td>.1000</td>
<td>.9604</td>
</tr>
<tr>
<td>7.</td>
<td>2.9533**</td>
<td>.4367</td>
<td>2.4398*</td>
</tr>
<tr>
<td>8.</td>
<td>.4347</td>
<td>-1.2630</td>
<td>.7319</td>
</tr>
<tr>
<td>9.</td>
<td>-3.5963**</td>
<td>.6249</td>
<td>-1.9903</td>
</tr>
<tr>
<td>10.</td>
<td>4.8843**</td>
<td>2.7383**</td>
<td>3.6382**</td>
</tr>
</tbody>
</table>

significance levels

**<.01

*<.05
Table 7. Price Reversal Tests for Period 1 with Periods 5, 7, and 10

<table>
<thead>
<tr>
<th></th>
<th>Correlation Between Test Periods 1 and 6</th>
<th>Correlation Between Test Periods 1 and 7</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Overall</td>
<td>Overall</td>
</tr>
<tr>
<td></td>
<td>-0.0204</td>
<td>-0.1256</td>
</tr>
<tr>
<td></td>
<td>p=.366</td>
<td>p=.017</td>
</tr>
<tr>
<td></td>
<td>Measurement Method Groups</td>
<td>Measurement Method Groups</td>
</tr>
<tr>
<td>Current/Noncurrent</td>
<td>0.0707</td>
<td>0.0906</td>
</tr>
<tr>
<td></td>
<td>p=.190</td>
<td>p=.125</td>
</tr>
<tr>
<td>Monetary/Nonmonetary</td>
<td>0.1839</td>
<td>0.0475</td>
</tr>
<tr>
<td></td>
<td>p=.119</td>
<td>p=.381</td>
</tr>
<tr>
<td>Hybrid</td>
<td>-0.1035</td>
<td>-0.2395</td>
</tr>
<tr>
<td></td>
<td>p=.170</td>
<td>p=.013</td>
</tr>
<tr>
<td>Disposal Method Groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Write Off</td>
<td>0.0395</td>
<td>-0.0849</td>
</tr>
<tr>
<td></td>
<td>p=.312</td>
<td>p=.133</td>
</tr>
<tr>
<td>Deferral</td>
<td>0.0471</td>
<td>-0.0516</td>
</tr>
<tr>
<td></td>
<td>p=.352</td>
<td>p=.339</td>
</tr>
<tr>
<td>Hybrid</td>
<td>-0.0727</td>
<td>-0.3405</td>
</tr>
<tr>
<td></td>
<td>p=.316</td>
<td>p=.010</td>
</tr>
</tbody>
</table>
Correlation Between Test Periods 1 and 10

| Overall | -0.0048 | p = 0.468 |

---

**Measurement Method Groups**

<table>
<thead>
<tr>
<th>Group</th>
<th>Correlation</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current/Noncurrent</td>
<td>0.0437</td>
<td>0.294</td>
</tr>
<tr>
<td>Monetary/Nonmonetary</td>
<td>-0.1086</td>
<td>0.244</td>
</tr>
<tr>
<td>Hybrid</td>
<td>-0.0523</td>
<td>0.315</td>
</tr>
</tbody>
</table>

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**Disposal Method Groups**

<table>
<thead>
<tr>
<th>Group</th>
<th>Correlation</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Write Off</td>
<td>0.0454</td>
<td>0.276</td>
</tr>
<tr>
<td>Deferral</td>
<td>-0.2180</td>
<td>0.038</td>
</tr>
<tr>
<td>Hybrid</td>
<td>0.1858</td>
<td>0.108</td>
</tr>
</tbody>
</table>
Table 8. Price Reversal Tests for Period 4 with Periods 2 and 3

<table>
<thead>
<tr>
<th>Correlation Between Test Periods 4 and 2</th>
<th>Overall</th>
<th>-.1422</th>
<th>p=.008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Method Groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current/Noncurrent</td>
<td>-.1926</td>
<td>p=.016</td>
<td></td>
</tr>
<tr>
<td>Monetary/Nonmonetary</td>
<td>-.2558</td>
<td>p=.049</td>
<td></td>
</tr>
<tr>
<td>Hybrid</td>
<td>-.0392</td>
<td>p=.359</td>
<td></td>
</tr>
<tr>
<td>Disposal Method Groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Write Off</td>
<td>-.1008</td>
<td>p=.094</td>
<td></td>
</tr>
<tr>
<td>Deferral</td>
<td>-.1962</td>
<td>p=.056</td>
<td></td>
</tr>
<tr>
<td>Hybrid</td>
<td>-.2936</td>
<td>p=.032</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Correlation Between Test Periods 4 and 3</th>
<th>Overall</th>
<th>-.1767</th>
<th>p=.001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Measurement Method Groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current/Noncurrent</td>
<td>-.1423</td>
<td>p=.038</td>
<td></td>
</tr>
<tr>
<td>Monetary/Nonmonetary</td>
<td>-.2780</td>
<td>p=.036</td>
<td></td>
</tr>
<tr>
<td>Hybrid</td>
<td>-.1919</td>
<td>p=.038</td>
<td></td>
</tr>
<tr>
<td>Disposal Method Groups</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Write Off</td>
<td>-.1297</td>
<td>p=.044</td>
<td></td>
</tr>
<tr>
<td>Deferral</td>
<td>-.4182</td>
<td>p=.001</td>
<td></td>
</tr>
<tr>
<td>Hybrid</td>
<td>-.0445</td>
<td>p=.385</td>
<td></td>
</tr>
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</table>
Table 9. Price Consistency Tests for Period 8 with Period 10

<table>
<thead>
<tr>
<th>Correlation Between Test Periods 8 and 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
</tr>
<tr>
<td>Measurement Method Groups</td>
</tr>
<tr>
<td>Current/Noncurrent</td>
</tr>
<tr>
<td>Monetary/Nonmonetary</td>
</tr>
<tr>
<td>Hybrid</td>
</tr>
<tr>
<td>Disposal Method Groups</td>
</tr>
<tr>
<td>Direct Write Off</td>
</tr>
<tr>
<td>Deferral</td>
</tr>
<tr>
<td>Hybrid</td>
</tr>
</tbody>
</table>