

MEMO# 30635

March 13, 2017

Submission to SEC Addressing Accounting for Centrally Cleared Derivative Contracts

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March 13, 2017 TO: Accounting/Treasurers Committee RE: Submission to SEC Addressing Accounting for Centrally Cleared Derivative Contracts

As you know, the Chicago Mercantile Exchange (CME) and LCH.Clearnet Limited (LCH) recently amended their rulebooks to legally characterize variation margin payments for over-the-counter derivatives they clear as settlements of the derivatives' exposures rather than collateral against the exposures. Prior to the changes going into effect, registered funds accounted for changes in value on centrally cleared swaps and the related movement of variation margin as unrealized gains and losses. The CME and LCH amendments have raised questions about whether these unrealized gains and losses on open derivatives contracts cleared through these entities should now be recorded as realized when variation margin is transferred. In addition, the amendments have caused some to reconsider historical accounting for futures contracts.

Members of the AICPA Investment Companies Expert Panel have prepared the attached paper addressing the accounting for centrally-cleared derivatives and submitted it to the SEC staff for its consideration. The paper describes two views: View A argues that the change in fair value of open settled-to-market derivative contracts should be accounted for as unrealized gains and losses until the contract delivery or termination date, at which point they would be reclassified to realized; View B argues that the change in fair value of open settled-to-market derivative contracts should be accounted for as realized gains and losses when variation margin is transferred. The paper then seeks assurance that the SEC Staff would not object to accounting for the change in fair value of open derivative contracts (including many futures contracts), for which transfer of variation margin is deemed legal settlement, in accordance with View A.

We will keep you informed of developments as the SEC staff considers the paper.

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[Attachment](#)

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