

MEMO# 21751

October 4, 2007

Center for Audit Quality Issues White Papers on Accounting Issues Related to Illiquidity in Fixed-Income Markets

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TO: ACCOUNTING/TREASURERS MEMBERS No. 32-07
FIXED-INCOME ADVISORY COMMITTEE No. 32-07
INST. MONEY MARKET FUNDS ADVISORY COMMITTEE No. 31-07
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 28-07
SEC RULES COMMITTEE No. 80-07 RE: CENTER FOR AUDIT QUALITY ISSUES WHITE PAPERS
ON ACCOUNTING ISSUES RELATED TO ILLIQUIDITY IN FIXED-INCOME MARKETS

The Center for Audit Quality (“CAQ”) recently released three white papers addressing accounting issues related to recent conditions in the fixed-income markets. [\[1\]](#) According to the CAQ, current market conditions present unique challenges in performing audits and quarterly reviews of public company financial statements. As a result, the CAQ developed the white papers to aid accounting firms as they conduct audits and quarterly reviews of public companies. The papers articulate certain existing requirements in generally accepted accounting principles relevant to current market conditions.

These white papers may also be of interest to investment companies, both as issuers and as investors, as they respond to current market conditions. [\[2\]](#) The three white papers address:

- Measurements of Fair Value in Illiquid (or Less Liquid) Markets—this paper discusses existing GAAP guidance on measurement of fair value, primarily FAS No. 157, Fair Value Measurements. The paper discusses various FAS 157 concepts including active markets, distress sales, market participants, valuation models, and the fair value hierarchy;
- Accounting for Underwriting and Loan Commitments—this paper discusses existing

- GAAP guidance associated with commitments to lend money or underwrite securities;
- Consolidation of Commercial Paper Conduits—this paper discusses the application of FIN 46R, Consolidation of Variable Interest Entities by sponsors of commercial paper conduits.

According to the CAQ, the white papers have been shared with the staffs of the Securities and Exchange Commission, the Financial Accounting Standards Board, and the Public Company Accounting Oversight Board.

Gregory M. Smith
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endnotes

[1] The CAQ is an affiliate of the American Institute of Certified Public Accountants. Its membership includes accounting firms registered with the Public Company Accounting Oversight Board. The CAQ seeks to serve the interests of investors, auditors and the capital markets by making public company audits more reliable and relevant to investors.

[2] The white papers are available on the CAQ's website at http://www.thecaq.org/members/alerts/CAQAlert2007_51_10032007.pdf.

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