

MEMO# 23078

November 20, 2008

Draft FAS 161 Implementation Paper for Investment Companies

[23078]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 19-08
INDEPENDENT ACCOUNTANTS ADVISORY GROUP No. 6-08 RE: DRAFT FAS 161
IMPLEMENTATION PAPER FOR INVESTMENT COMPANIES

Earlier this year the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities. [\[1\]](#) The new standard is intended to improve financial reporting about derivative instruments by requiring enhanced disclosures that enable investors to understand: a) how and why an entity uses derivatives, b) how derivatives are accounted for, and c) how derivative instruments affect an entity's results of operations and financial position. FAS No. 161 applies to all entities that prepare GAAP-based financial statements, including investment companies, and is effective for fiscal years and interim periods beginning after November 15, 2008. The Accounting Policy Subcommittee has developed a draft paper intended to assist investment companies in implementing the new standard. The draft paper is attached for your review.

Please be prepared to provide any comments you may have on the draft paper at the upcoming ICI Accounting/Treasurers Committee meeting on December 4. If you do not plan to attend the December 4 meeting, please provide any comments to the undersigned at 202/326-5851 or smith@ici.org.

Objectives and Strategies

All issuers must disclose their objectives for using derivative instruments, the context

needed to understand those objectives, and their strategies for achieving those objectives. The disclosures should distinguish derivative instruments by their primary underlying risk exposure (e.g., interest rate, credit, foreign exchange rate, equity). Disclosures should also distinguish derivative instruments between those used for risk management purposes and those used for other purposes. FAS No. 161 also requires

issuers to disclose information that would enable investors to understand the volume or level of its derivative activity (e.g., number and notional amount of contracts).

Tabular Balance Sheet Disclosure

All issuers must disclose in a table the derivative instruments' fair value and location in the balance sheet (or statement of net assets). The tabular disclosure should display each major type or category of derivative contract (e.g., interest rate, foreign exchange rate, equity) along with its fair value and location in the statement of net assets (i.e., the line-item description). The fair value amounts should be disaggregated and presented as separate asset and liability values. The fair value of the derivative instruments should be presented on a gross basis, even when the derivative instruments are subject to master netting arrangements and qualify for net presentation under FIN 39, Offsetting of Amounts Related to Certain Contracts. Cash collateral payables and receivables associated with the derivative instruments should not be added to or netted against the fair value amounts.

Tabular Income Statement Disclosure

All issuers must disclose in a table the location and amount of gains and losses reported in the income statement. The tabular disclosure should display each major type or category of derivative contract (e.g., interest rate, foreign exchange rate, equity) along with the amount of gain or loss and its location in the income statement (i.e., the line-item description).

Credit Risk-Related Contingent Features

Entities that hold or issue derivatives that contain credit risk-related contingent features must disclose the existence and nature of the credit risk-related contingent features, the circumstances in which the features could be triggered for those derivatives in a net liability position, and the aggregate fair value amounts of derivatives in a net liability position that contain credit risk-related contingent features at the end of the reporting period. Further, issuers must disclose the aggregate fair value of assets that are already posted as collateral at the end of the reporting period and a) the aggregate fair value of additional assets that would be required to be posted as collateral and/or b) the aggregate fair value of assets needed to settle the instrument immediately if the credit risk-related contingent features were triggered at the end of the reporting period.

Counterparty Credit Risk

FAS No. 161 amends FAS No. 107, Disclosures About Fair Value of Financial Instruments to clarify that the counterparty credit risk disclosures required by paragraph 15A of FAS No. 107 apply to derivative instruments.

Gregory M. Smith
Director - Operations/Compliance & Fund Accounting

[Attachment](#)

endnotes

[\[1\]](#) Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities is available at the FASB website:
<http://www.fasb.org/st/index.shtml>.

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