

**MEMO# 30587**

February 21, 2017

## **Draft Submission Addressing Accounting for Centrally Cleared Derivatives: Comments Requested by February 23**

[30587] February 21, 2017 TO: Accounting/Treasurers Committee RE: Draft Submission Addressing Accounting for Centrally Cleared Derivatives: Comments Requested by February 23

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 draft submission addressing the accounting for centrally-cleared derivatives for consideration by the SEC staff. The draft submission expresses the view that current accounting for changes in value on open derivative contracts, for which transfer of variation margin is deemed legal settlement, as unrealized gains and losses is in accordance with US GAAP. In addition, the draft submission notes that current accounting is consistent with the *AICPA Audit & Accounting Guide - Investment Companies*, and the SEC's October, 2016 amendments to Regulation S-X.[\[1\]](#)

The draft submission discusses the basis for its conclusion that current accounting is in accordance with US GAAP, including: SFAS No. 80, *Accounting for Futures Contracts*, the SEC's October 2016 amendments to Regulation S-X, and the *AICPA Audit & Accounting Guide - Investment Companies*. In addition, the draft submission expresses the view that presentation of changes in value on open derivatives contracts as unrealized gains or losses provides more meaningful information to financial statement users. Finally, the draft submission describes operational challenges that could result from any change in accounting.

The AICPA Investment Companies Expert Panel plans to finalize the submission and forward

it to the SEC staff in the next several days. Please provide any comments you may have on the draft submission to the undersigned ([smith@ici.org](mailto:smith@ici.org) or 202/326-5851) by February 23.

Gregory M. Smith  
Senior Director, Fund Accounting and Compliance

## [Attachment](#)

### **endnotes**

[1] See ICI Mmemorandum No. 30331, dated October 21, 2016. *Available at* [https://www.ici.org/my\\_ici/memorandum/memo30331](https://www.ici.org/my_ici/memorandum/memo30331). Among other things, the amendments to Regulation S-X standardize the presentation of derivatives contracts and call for disclosure of the amount of unrealized appreciation/depreciation.

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