

MEMO# 10152

July 27, 1998

ACCOUNTING FOR CLOSED-END FUND UNDERWRITING FEES

[10152] July 27, 1998 TO: ACCOUNTING/TREASURERS COMMITTEE No. 31-98 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 13-98 TAX COMMITTEE No. 26-98 RE: ACCOUNTING FOR CLOSED-END FUND UNDERWRITING FEES

Underwriting fees paid by closed-end funds in connection with the initial public offering of their shares are deducted from fund assets, causing net asset value per share to decline immediately after conclusion of the offering. For the past several years, some advisers to closed-end funds have paid the underwriter's fees on behalf of the fund in order to avoid this immediate decline in the fund's net asset value. For financial accounting purposes, the adviser capitalizes the amount paid to the underwriter as an asset and amortizes that asset over an extended period. The Institute recently learned that the Financial Accounting Standards Board was prepared to issue a staff announcement indicating that the payment from the adviser to the underwriter does not qualify as an asset and should be expensed as incurred. The Institute sent the attached letter to the FASB requesting that any staff announcement on this issue be deferred until interested parties have an opportunity to comment. We are pleased to report that the FASB has deferred consideration of this issue until the next regularly scheduled FASB Emerging Issues Task Force meeting on September 24. However, if the FASB ultimately determines that these payments should be expensed as incurred, we understand this position will be retroactive to July 23. The Institute plans to prepare a submission to the FASB detailing why these payments to the underwriter qualify as an asset for financial accounting purposes. The Institute plans to hold a meeting of interested parties to discuss this matter on August 11 from 10:00 am to 1:00 pm. Lunch will be provided. If you would like to attend this meeting, please contact the undersigned at 202/326-5851, Keith Lawson at 202/326-5832, or Anne Barr at 202/326-5837. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment