

MEMO# 6046

July 13, 1994

INSTITUTE COMMENT LETTER ON FASB EXPOSURE DRAFT, DISCLOSURE ABOUT DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

July 13, 1994 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 36-94 INDEPENDENT ACCOUNTANTS ADV. GROUP NO. 6-94 INVESTMENT ISSUES COMMITTEE NO. 11-94 SEC RULES COMMITTEE NO. 75-94 RE: INSTITUTE COMMENT LETTER ON FASB EXPOSURE DRAFT, DISCLOSURE ABOUT DERIVATIVE FINANCIAL INSTRUMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS _____ The ICI comment letter on the Financial Accounting Standards Board's exposure draft relating to derivative financial instruments is attached. The proposed statement of financial accounting standards (the "SFAS") would require all entities that prepare financial statements in accordance with generally accepted accounting principles to provide improved disclosures on derivative financial instruments. For purposes of the SFAS, derivative financial instruments are defined to include futures, forwards, swaps, option contracts and other financial instruments with similar characteristics, including interest rate caps and floors. The proposed SFAS would require that a distinction be made between derivative financial instruments held or issued for trading purposes (including dealing) and those held or issued for purposes other than trading, such as hedging. For derivative financial instruments held or issued for trading purposes, the SFAS would require disclosure of a) the average, maximum, and minimum aggregate fair values during the reporting period of each class of derivative financial instruments, and b) the net trading gains or losses arising from derivative financial instrument trading activities during the reporting period. For derivative financial instruments held for purposes other than trading, the proposed SFAS would require a) a description of the entity's objectives for holding the derivative financial instruments and the strategies for achieving those objectives, and b) a description of how the derivative financial instruments are reported in the financial statements. The Institute's comment letter expresses general support for improved disclosure on derivative financial instruments, especially in regard to those entities that prepare financial statements on a historical cost basis. In addition, the Institute's letter requests clarification on the criteria for determining whether a mutual fund's investments in derivative financial instruments should be treated as held for "trading purposes" or for "purposes other than trading." Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment

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