

MEMO# 961

February 6, 1989

FASB AGREES ON LANGUAGE OF FINAL STATEMENT AMENDING SFAS NO. 95

February 6, 1989 TO: CLOSED-END FUND COMMITTEE NO. 3-89 SEC RULES COMMITTEE NO. 10-89 UNIT INVESTMENT TRUST COMMITTEE NO. 5-89 ACCOUNTING/TREASURERS COMMITTEE NO. 9-89 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: FASB AGREES ON LANGUAGE OF FINAL STATEMENT AMENDING SFAS NO. 95

The second vote by the Financial Accounting Standards Board (FASB) regarding the issuance of a final statement amending SFAS No. 95, Statement of Cash Flows, was concluded on Friday, February 3. (See Memorandum to Accounting/Treasurers Committee No. 7-89, Closed-End Fund Committee No. 2-89, SEC Rules Committee No. 7-89, and Unit Investment Trust Committee No. 3-89.) The final statement is expected to be published by the FASB on February 10 or very shortly thereafter. The Institute has been informed by the FASB staff that the final statement will exempt from SFAS No. 95, investment companies that are registered under the Investment Company Act of 1940 and investment companies having essentially the same characteristics as '40 Act registrants that meet the following conditions: a. Substantially all investments were highly liquid. b. Substantially all investments were carried at market value. c. There was little or no debt based on average debt outstanding during the period in relation to average net assets during the period. d. The company provides a statement of changes in net assets. Please note the following changes in the exemption criteria from the Exposure Draft (ED) of the final statement (See Memorandum to Closed-End Fund Committee No. 36-88, SEC Rules Committee No. 78-88, Unit Investment Trust Committee No. 40-88, and Accounting/Treasurers Committee No. 46-88.) Condition a. in the ED stated that "the enterprise's assets consist predominantly -2- of cash, securities, and similar assets for which a market is readily available." That condition has been modified in condition a. above to require that substantially all investments were highly liquid. Condition b. above has been added. Condition c. above clarifies the ED by providing that average debt outstanding be considered in relation to average net assets. Footnotes in the final statement will clarify that (1) investments carried at "market value" include securities valued by a matrix pricing model but exclude securities whose fair values are estimated in accordance with good faith determinations of the board of directors, and (2) any extensions of credit by sellers not in accordance with standard industry practices for redeeming shares or settling purchases of investments are included in "debt." The FASB staff has indicated its agreement that "when issued" and "delayed delivery" transactions are standard industry practices. We will keep you advised of further developments. Donald J. Boteler Director of Operations/ Fund Accounting

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