

**MEMO# 3450**

January 17, 1992

## **ACCOUNTING FOR INVESTMENTS WITH PREPAYMENT RISK**

January 17, 1992 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 1-92 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: ACCOUNTING FOR INVESTMENTS WITH PREPAYMENT RISK \_\_\_\_\_ Attached is the Institute's comment letter to the FASB regarding Proposed Statement of Financial Accounting Standards, Accounting for Investments with Prepayment Risk (the "ED"). The ED would require under certain conditions that cumulative retroactive adjustments be made to carrying amounts and income, reflecting material changes in prepayment estimates (the "retrospective method") for instruments with prepayment risk. The ED applies to investments carried at market value to the extent that interest income on those investments is recognized by the effective interest method. Thus, in its current form, the ED appears not to affect accounting for GNMA's but may affect accounting for many callable debt instruments held by investment companies. The Institute's letter objects to the retrospective method as conceptually flawed and impracticable and recommends that the ED be revised to exclude from its scope investments reported at market value. We will keep you informed of developments. DONALD J. BOTELER Assistant Vice President - Operations

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