

**MEMO# 9087**

July 28, 1997

## **INSTITUTE COMMENTS ON AICPA ORGANIZATION COSTS PROPOSAL**

1 See Accounting/Treasurers Committee No. 16-97 (June 11, 1997). July 28, 1997 TO: ACCOUNTING/TREASURERS COMMITTEE No. 20-97 RE: INSTITUTE COMMENTS ON AICPA ORGANIZATION COSTS PROPOSAL

---

As you know, the Accounting Standards Executive Committee of the AICPA recently issued an exposure draft of a proposed statement of position Reporting on the Costs of Start-up Activities. The proposed SOP would require costs associated with pre-operating "start-up activities" to be expensed as incurred and would limit the types of costs that can be capitalized as organization costs. The Institute filed a comment letter with the AICPA arguing that all costs associated with preparing a funds initial registration statement to be filed with the SEC should be treated as organization costs.<sup>1</sup> Further, these organization costs should be permitted to be capitalized as an asset and amortized to expense over a period of up to 60 months, consistent with current practice. The Institutes comment letter also notes that application of the SOP to existing investment companies that currently recognize organization costs as an asset would result in an immediate decline in those funds net asset values to the detriment of shareholders. The Institute filed the attached "supplemental" comment letter with the AICPA quantifying the amount of organization costs currently recognized by open-end investment companies that would be required to be written-off under the exposure draft. The Institutes supplemental comment letter continues to argue that all organization costs should be permitted to be capitalized as an asset. However, in the event the AICPA does not concur, the attached letter recommends that the exposure draft be applied prospectively to start-up costs incurred after the effective date. Such application would allow currently recognized organization costs to continue to be recognized as an asset (for no more than five years) and avoid a loss in value of mutual fund shares. We will keep you informed of developments. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment (in .pdf format)