

**MEMO# 9629**

February 2, 1998

## **UPDATE ON AICPA PROPOSAL LIMITING ORGANIZATION COSTS**

1 See Accounting/Treasurers Committee No. 13-97, Unit Investment Trust Committee No. 31-97, May 16, 1997. 2 See Accounting/Treasurers Committee No. 42-97, Closed-End Investment Company Committee No. 40-97, Small Funds Committee No. 20-97, and Unit Investment Trust Committee No. 63-97, October 28, 1997. [9629] February 2, 1998 TO: ACCOUNTING/TREASURERS COMMITTEE No. 4-98 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 4-98 SMALL FUNDS COMMITTEE No. 2-98 UNIT INVESTMENT TRUST COMMITTEE No. 4-98 RE: UPDATE ON AICPA PROPOSAL LIMITING ORGANIZATION COSTS

As you know, in 1997 the Accounting Standards Executive Committee of the AICPA issued an exposure draft that would limit the types of pre-operating start-up expenses that can be capitalized as organization costs.<sup>1</sup> The proposed statement of position, Reporting on the Costs of Start-up Activities, would apply to all entities that prepare financial statements in conformity with generally accepted accounting principles, including investment companies. At an October 1997 meeting, AcSEC tentatively decided to require all start-up costs, including legal costs associated with organization and incorporation of the fund, as well as costs associated with the drafting of bylaws to be expensed as incurred. However, in response to comments by the Institute and others, organization costs currently recognized as fund assets by open-end funds and unit investment trusts were exempted from the mandatory write-off provision contained in the original proposal. AcSEC did not extend the exemption to closed-end funds since they are exchange traded. Subsequent to AcSEC's October meeting, the Institute distributed a memorandum describing AcSEC's tentative conclusions and indicating that the exposure draft would be effective for fiscal years beginning after December 15, 1998.<sup>2</sup> Recently AcSEC changed the effective date of the exposure draft as it relates to open-end funds and unit investment trusts to the later of June 30, 1998 or the date that the exposure draft is issued in final form. We understand that the exposure draft should be issued in final form during the second quarter of 1998. Accordingly, in order to capitalize start-up costs as a fund asset, such costs should be incurred and the fund should publicly offer its shares before June 30. We will keep you informed of developments. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting