

MEMO# 1442

October 3, 1989

INSTITUTE COMMENTS ON FASB EXPOSURE DRAFT ON OFF-BALANCE- SHEET RISK DISCLOSURES

October 3, 1989 TO: CLOSED-END FUND MEMBERS NO. 44-89 SEC RULES MEMBERS NO. 52-89 ACCOUNTING/TREASURERS MEMBERS NO. 4-89 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: INSTITUTE COMMENTS ON FASB EXPOSURE DRAFT ON OFF-BALANCE-SHEET RISK DISCLOSURES

Attached is the Institute's comment letter to the Financial Accounting Standards Board (FASB) on the FASB's Exposure Draft, Disclosure of Information about Financial Instruments with Off- Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk. (See Memorandum to Accounting/Treasurers Committee No. 33-89 dated August 16, 1989.) The Exposure Draft would require all entities to disclose information about the following for financial instruments with off-balance-sheet risk: 1. The face, contract, or notional principal amount and the amount recognized in the statement of financial position 2. The nature and terms of the instruments and a discussion of the credit, market, and liquidity risk and related accounting policies 3. The loss the entity would incur if any counterparty to the financial instrument failed to perform 4. The entity's policy for requiring collateral or other security on financial instruments it accepts and a description of collateral on instruments presently held. The Exposure Draft would also require disclosure of information about significant concentrations of credit risk for all financial instruments. The FASB expects to adopt a final statement of the Exposure Draft in November, 1989, which would be effective for financial statements issued for fiscal years ending after December 15, 1989. However, the required disclosures in item No. 4 above regarding collateral and the additional disclosure requirements for concentrations of credit risk for all financial instruments would be effective for financial statements issued after June 15, 1990. -2- The Institute's comment letter makes the following points: 1. Because most of the narrative disclosures proposed in the Exposure Draft are already provided in an investment company's current prospectus, we recommended that the final statement adopted by the FASB permit investment companies to comply with the narrative disclosure requirements by referencing in the financial statement footnotes the relevant prospectus disclosures. 2. With respect to the proposed requirement to disclose the possibility of loss, even if remote, from the failure of another party to perform according to the terms of a contract (credit risk), with the assumption that any collateral proved to be of no value to the entity, we recommended that estimates of the possibility of loss attributable to credit risk be based on more realistic assessments of risk, as currently required by FASB Statement No. 5 for other loss contingencies. We also recommended deletion of the required assumption that any collateral is worthless in favor of consideration of the actual fair value of the collateral. 3. As to the proposed disclosure requirements regarding concentrations of credit risk for all

financial instruments, we recommended that the FASB clarify in its final statement of the Exposure Draft that an investment company's schedule of investments constitutes compliance with this requirement, as the securities are grouped by type, issuer and industry and are stated at market or fair value, which inherently reflects their credit risks. 4. We also requested that the effective date for all of the provisions of the final statement be June 15, 1990, because the short period of time between expected adoption of the statement in November, 1989 and implementation at December 15, 1989 would not provide sufficient time to adequately prepare for compliance. We will keep you advised of further developments. Donald J. Boteler Director of Operations/ Fund Accounting
Attachment

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