

MEMO# 14557

March 19, 2002

SEC ANNOUNCES ACTIONS FOR ANDERSEN CLIENTS

[14557] March 19, 2002 TO: ACCOUNTING/TREASURERS MEMBERS No. 5-02 CLOSED-END INVESTMENT COMPANY MEMBERS No. 11-02 COMPLIANCE ADVISORY COMMITTEE No. 24-02 SEC RULES MEMBERS No. 21-02 RE: SEC ANNOUNCES ACTIONS FOR ANDERSEN CLIENTS

The SEC recently issued a series of orders and rules¹ intended to allow Andersen clients to continue to make regulatory filings and to minimize any disruptions that may occur as a result of the indictment of Arthur Andersen LLP. The SEC's orders and rules are summarized below. Registrants that Continue to Engage Andersen Issuers whose audits are completed by Andersen after March 14, 2002, must obtain from Andersen certain representations concerning audit quality controls. The Commission will continue to accept financial statements audited by Andersen so long as Andersen can provide these assurances. The Commission has adopted Temporary Note 3T to Article 3 of Regulation S-X for issuers, including investment companies that make filings that include accountant's reports issued after March 14, 2002. The rule specifies that issuers are required to include as an exhibit to their filings a letter by the issuer addressed to the Commission. The letter must state that Andersen has represented to the issuer that the audit was subject to Andersen's quality control system to provide reasonable assurance that the engagement was conducted in compliance with professional standards and that there was appropriate continuity of Andersen personnel working on audits, availability of national office personnel working on audits, and availability of personnel at foreign affiliates of Andersen to conduct the relevant portions of the audit. The disclosures in Temporary Note 3T must also be made in the annual report to shareholders. 1 Release Nos. IC- 25463 and IC-25464 (March 18, 2002).

These releases are available on the SEC website at www.sec.gov/rules/final/33-8070.htm 2 Registrants that are Unable or Choose not to Engage Andersen The Commission has issued specific relief for investment companies with obligations to file annual reports on Form N-SAR, annual reports to shareholders, and amendments to registration statements that are unable or choose not to engage Andersen.² An investment company is eligible for relief ("Eligible Fund") if 1) Andersen had been engaged on or after March 14, 2002 as the fund's independent public accountant, 2) the Eligible Fund, on or before March 14, 2002, had not obtained a manually signed audit report from Andersen in respect to those financial statements; and 3) the Eligible Fund is unable to obtain from Andersen or elects not to have Andersen issue a manually signed audit report with respect to its financial statements. 1. Form N-SAR Eligible funds with fiscal years ending between December 15, 2001 and April 15, 2002 may file Form N-SAR based on unaudited information. These Eligible Funds must then file an amendment no later than 60 days after the date they were originally required to file Form N-SAR that contains 1) responses based on audited financial information, 2) the auditor's report on internal controls, and 3) an exhibit discussing any material changes from the previous unaudited filing. 2. Annual Reports to Shareholders Eligible Funds with

fiscal years ending between January 1, 2002 and April 15, 2002 may transmit to shareholders annual reports containing 1) unaudited financial statements, and 2) disclosure reflecting the guidance in Temporary Note 2T to Article 3 of Regulation S-X. Among other things, this disclosure requires a prominent statement that the filing contains unaudited financial statements in lieu of audited financial statements because the issuer was unable to obtain an audit report from Andersen, or elected not to have Andersen issue an audit report. These Eligible Funds must then file an amendment no later than 60 days after the date they were originally required to file the original annual report that contains 1) audited financial statements, 2) a discussion of any material changes from the unaudited financial statements, and 3) changes to any other section of the annual report to reflect any changes in the audited financial statements. Many closed-end funds annually solicit proxies, which must be accompanied or preceded by an annual report. The relief requires a closed-end fund that amends its annual report to include audited financial statements, to inform its shareholders through a press release, and to post its audited financial statements to its website, if the company's proxy solicitation has not been completed before the time audited financial statements are filed. 2 The SEC also adopted relief relating to verification of assets in custody by an independent public accountant. The relief provides for a 60-day extension when the investment company terminates the engagement with Andersen, provided the required examinations are performed by a successor accountant. The SEC also adopted relief relating to an investment adviser's audited balance sheet on Schedule G to Form ADV. 3 3. Amendments to Registration Statements An Eligible Fund with a fiscal year ending between January 1, 2002 and April 15, 2002 may file a post-effective amendment updating its registration statement within six months (rather than 120 days) of the end of its fiscal year, if the fund has timely filed its Form N-SAR. These funds must 1) update their registration statement 120 days after fiscal year-end with unaudited financial information, and 2) provide prospectus disclosure reflecting the guidance in Temporary Note 2T to Article 3 of Regulation S-X. However, pursuant to Temporary Note 1T to Article 3 of Regulation S-X, the post-effective amendment adding audited financial statements must be filed no later than the earlier of 1) 6 months after the fiscal year end, or 2) the date on which an amended annual report to shareholders containing audited financial information is filed with the Commission (i.e., 120 days after the fiscal year-end as described above). The Commission's release emphasizes that companies should make their own independent decisions regarding retaining Andersen to complete current audits and that these actions are intended only to provide neutral flexibility for companies as they make those decisions. Selection of Auditors by Investment Companies The relief granted by the Commission provides an additional 60 days for an investment company to select an independent public accountant whose financial statements for its last fiscal year were audited by Andersen and whose fiscal year ended on or before April 15, 2002. The relief permits a fund that had selected Andersen as its independent public accountant on or before March 14, 2002, and thereafter terminated the appointment, to select a new independent public accountant by a majority vote of the independent directors of the fund. The relief suspends the "in person" requirement and permits directors to cast votes in a meeting by any means of communication that allows all directors to communicate with each other simultaneously. Gregory M. Smith Director - Operations/Compliance & Fund Accounting