

MEMO# 2527

February 7, 1991

SEC STAFF ACCOUNTING BULLETIN FOR FORMER CLIENTS OF LAVENTHOL AND HORWATH

February 7, 1991 TO: SEC RULES MEMBERS NO. 8-91 ACCOUNTING/TREASURERS MEMBERS NO. 3-91 RE: SEC STAFF ACCOUNTING BULLETIN FOR FORMER CLIENTS OF LAVENTHOL AND HORWATH _____ Laventhol & Horwath (L&H), a public accounting firm, filed for bankruptcy on November 21, 1990 and ceased to perform audit and accounting services. As a result, some SEC registrants will be unable to file manually signed audit reports and manually signed accountants' consents required to be included in specified Commission filings. The attached SEC Staff Accounting Bulletin (SAB) provides guidance as to the disclosure to be provided by, and the relief to be granted to, registrants who are former clients of L&H. With respect to registration statements and post-effective amendments under the Securities Act of 1933, the SAB states that, while the exact content of disclosures will vary with individual facts and circumstances, prominent summary disclosure should advise investors of L&H's bankruptcy and discontinuance of audit and accounting services. The SAB further states that registrants should consider advising investors of the effect of the bankruptcy filing on investors' rights to sue and recover damages from L&H for material misstatements or omissions, if any, in the registration statement and prospectus, including the financial statements. The SAB also identifies certain related matters that should be addressed in more detailed disclosures and which differ in accordance with the timing of a particular filing in relation to the timing of the L&H bankruptcy, whether a particular filing contains an L&H audit report and/or consent, and a number of other scenarios. In instances where independent accounting firms recently engaged by former L&H clients have insufficient time before a registrant's filing deadline to complete their engagement and sign the audit report required to be included in a post-effective amendment or Form N-SAR, the SAB states that the Commission staff will grant registrant submissions to substitute temporarily unaudited financial statements for the most recent fiscal year -2- under Rule 3-13 of Regulation S-X due to a company's inability to file timely audited financial statements and the independent accountant's audit report, where the company represents that, solely by reason of the L&H bankruptcy and cessation of audit and accounting services, the company was unable to timely file the audited financial statements and audit report without unreasonable effort or expense. As part of the submission, a company must undertake to file the report timely with unaudited year-end financials and to file the required audited financial statements and audit report on or before the date specified in the request, but no later than April 30, 1991. If a company or its agent delivers the document containing unaudited financial statements to investors for any reason, a company also must undertake to deliver the audited financial statements and related financial information if such audited financial statements and related financial

information differ materially from the information previously furnished. Submissions for additional extensions of time will be considered where the audit cannot be reasonably completed within the time period specified in the initial request. Submissions by investment companies should be directed to Lawrence A. Friend, Chief Accountant, Division of Investment Management, Securities and Exchange Commission, 450 5th Street, NW, Washington, D.C. 20549 The Commission staff indicates in the SAB that it intends to make public, as a supplement to the SAB, any additional guidance on this matter that it develops based on responses to inquiries from affected registrants. We will keep you informed of developments. Donald J. Boteler Director of Operations/ Fund Accounting Attachment(in .pdf format)

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