

MEMO# 3774

May 14, 1992

ICI COMMENTS ON AICPA PROPOSED STATEMENT OF POSITION ("SOP"), FINANCIAL ACCOUNTING AND REPORTING FOR HIGH- YIELD DEBT SECURITIES BY INVESTMENT COMPANIES

May 14, 1992 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 22-92 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: ICI COMMENTS ON AICPA PROPOSED STATEMENT OF POSITION ("SOP"), FINANCIAL ACCOUNTING AND REPORTING FOR HIGH- YIELD DEBT SECURITIES BY INVESTMENT COMPANIES

The ICI comment letter on the AICPA's high-yield debt securities SOP is attached. The Institute's letter expresses general support for the SOP but objects strongly to the proposed treatment of workout expenses, additional capital infusions and other expenditures in support of defaulted securities. Paragraph 49 of the SOP would require that workout expenses be reported as operating expenses and that additional capital infusions and other expenditures be reported as operating expenses except where additional indebtedness is received or the legally enforceable claim against the issuer is increased. In its letter, the Institute stated its belief that the appropriate test for determining the proper accounting treatment for expenditures in support of defaulted securities, including workout expenses, is whether an obligation's future realizable value will be enhanced. The letter points out that expenditures are made in the context of the investment process and accordingly should be permitted to be treated as part of the cost of the investment. The Institute's letter also noted, among other things, that the proposed accounting treatment in Paragraph 49 of the SOP would (1) cause the misstatement of portfolio gains and losses and investment income, (2) tend to discourage legitimate investment in high-yield securities, and (3) have an adverse effect on the liquidity of the high-yield market to the disadvantage of all participants, including investment company shareholders. The Institute recommended that Paragraph 49 be revised to permit capitalization of any support expenditures when the investment company believes that the payments will have the effect of enhancing future realizable value. We will keep you informed of developments. Donald J. Boteler Assistant Vice President - Operations Attachment

should not be considered a substitute for, legal advice.