INVESTMENT COMPANY INSTITUTE

MEMO# 9379

October 28, 1997

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. [9379] October 28, 1997 TO: ACCOUNTING/TREASURERS COMMITTEE No. 42-97 CLOSED-END INVESTMENT COMPANY COMMITTEE No. 40-97 SMALL FUNDS COMMITTEE No. 20-97 UNIT INVESTMENT TRUST COMMITTEE No. 63-97 RE: UPDATE ON AICPA PROPOSAL LIMITING ORGANIZATION COSTS ____ As you know, the Accounting Standards Executive Committee of the AICPA issued an exposure draft earlier this year that would limit the types of pre-operating start-up expenses that can be capitalized as organization costs.1 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. Specifically, the proposed SOP would require many costs associated with pre-operating start-up activities to be expensed as incurred and would limit the costs eligible to be capitalized to legal fees associated with organization and incorporation of the fund, and drafting bylaws. In the context of investment companies, the proposed SOP would effectively require the adviser or sponsor to bear certain organization costs which are currently born by the fund. The proposed SOP would also require that any organization costs currently recognized as an asset be written-off on the first day of the next fiscal year beginning after December 15, 1997. The Institute filed a comment letter in June arguing that because of the unique manner in which investment companies are created, all start-up expenses should be deemed to be organization costs, eligible for capitalization as a fund asset. The Institute filed a second comment letter in July noting that the SOPs provision requiring write-off of currently recognized organization costs could cost fund shareholders more than $16 million industry wide. At an October 24 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, we are pleased to report that investment company organization costs currently recognized as fund assets have been exempted from the mandatory write-off provision contained in the original proposal. Further, the effective date of the proposed SOP has been deferred to fiscal years beginning after December 15, 1998. Accordingly, investment company organization costs incurred through December 15, 1998 may continue to be capitalized as a fund asset and amortized over a period of up to 60 months. Organization costs incurred after December 15, 1998 should be expensed as incurred. Due to the extensive changes to the SOP, AcSEC requested that AICPA staff revise the original proposal and place it on AcSECs December meeting agenda for a formal vote of approval. While we do not expect further modifications, please note that AcSECs tentative conclusion on this issue is subject to change. We will keep you informed of developments.

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