

MEMO# 9863

April 21, 1998

AICPA STATEMENT OF POSITION ON THE COSTS OF START-UP ACTIVITIES

[9863] April 21, 1998 TO: ACCOUNTING/TREASURERS MEMBERS No. 8-98 CLOSED-END INVESTMENT COMPANY MEMBERS No. 10-98 SEC RULES MEMBERS No. 29-98 SMALL FUNDS COMMITTEE No. 7-98 TAX MEMBERS No. 12-98 UNIT INVESTMENT TRUST COMMITTEE No. 14-98 RE: AICPA STATEMENT OF POSITION ON THE COSTS OF START-UP ACTIVITIES

The Financial Accounting Standards Board recently approved AICPA Statement of Position 98-5, Reporting on the Costs of Start-Up Activities. The SOP applies to all entities that prepare financial statements in conformity with generally accepted accounting principles, including investment companies. The SOP amends the AICPA Audit and Accounting Guide, Audits of Investment Companies, and is effective for fiscal years beginning after December 15, 1998. For purposes of the SOP, start-up activities include activities related to organizing a new entity, commonly referred to as organization costs. Offering costs, including federal and state registration fees, are not within the scope of the SOP. The SOP indicates that costs of start-up activities, including organization costs, should be expensed as incurred. Since an investment company typically would have no public shareholders at the time start-up costs are incurred, the SOP effectively requires the adviser or sponsor to bear the funds organization costs. This represents a change from current accounting practice, which generally permits organization costs to be capitalized as a fund asset and amortized over a period of five years. The original proposal would have required that any organization costs currently recognized as an asset be written-off on the first day of the next fiscal year beginning after the effective date of the SOP. We are pleased to report that in response to comments by the Institute and others, organization costs currently recognized as fund assets by open-end funds and unit investment trusts were exempted from the mandatory write-off provision contained in the original proposal. These costs can continue to be recognized as a fund asset and amortized over their remaining useful life. The SOP contains special effective date and transition provisions for open-end funds and unit investment trusts. These entities should apply the SOP prospectively beginning on June 30, 1998. Organization costs incurred prior to June 30 may be capitalized as a fund asset and amortized over a period of up to five years, so long as shares, units or ownership interests are sold to independent third parties (parties other than founders, sponsors, and investment advisers) before June 30. Closed-end funds were excluded from the special effective date and transition provisions since they do not redeem shares at net asset value. The SOP is effective for closed-end funds for financial statements for fiscal years beginning after December 15, 1998. Initial application of the SOP by closed-end funds should be reported as the cumulative effect of a change in accounting principle, as described in Accounting Principles Board Opinion No. 20. Members are encouraged to review the SOP with their independent accountant. Copies of the SOP may be obtained from the AICPA by

calling 1-888-777-7077. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting

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