

MEMO# 8979

June 11, 1997

INSTITUTE COMMENTS ON AICPA ORGANIZATION COSTS PROPOSAL

June 11, 1997 TO: ACCOUNTING/TREASURERS COMMITTEE No. 16-97 UNIT INVESTMENT TRUST COMMITTEE No. 40-97 RE: INSTITUTE COMMENTS ON AICPA ORGANIZATION COSTS PROPOSAL _____ As

we previously reported, the Accounting Standards Executive Committee of the AICPA recently issued an exposure draft of a proposed statement of position Reporting on the Costs of Start-up Activities. The proposed SOP would apply to all entities that prepare financial statements in conformity with generally accepted accounting principles, including investment companies. The proposed SOP would require costs associated with pre-operating "start-up activities" to be expensed as incurred and would limit the types of costs that can be capitalized as organization costs. 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 Institutes comment letter argues that all costs associated with preparing a funds initial registration statement to be filed with the SEC should be treated as organization costs. The SOP should authorize these costs to be capitalized as an asset and amortized to expense over a period of up to 60 months, consistent with current practice. The letter also argues that investment company start-up costs do entail "probable future economic benefits" within the meaning of FASB Statement of Concepts No. 6 and should appropriately be capitalized as a fund asset. Finally, the letter notes that application of the SOP to existing investment companies that currently recognize organization costs as an asset would result in an immediate decline in those funds net asset values to the detriment of shareholders. A copy of the Institutes comment letter is attached. The comment deadline on the proposed SOP is July 22. However, the AICPA Investment Companies Committee met with AcSEC on June 10 to clear a draft version of the Investment Company Audit Guide. The Institute filed its comment letter on the proposed SOP on June 5 so that our comments could be considered in connection with AcSECs review of the Audit Guide, which, among other things, addresses the appropriate accounting treatment for start-up costs. The AICPA Investment Companies Committee, similar to Institute, has proposed that all costs associated with preparation of a funds initial registration statement be treated as organization costs and capitalized as an asset of the fund. At its June 10 meeting AcSEC deferred a decision on the appropriate treatment of investment company start-up expenses until after the July 22 comment deadline. Accordingly, there is still time to file your comments so that they may be considered by AcSEC. Copies of the proposed SOP may be obtained by writing to the AICPA Order Department, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881 or by visiting the AICPAs internet website at aicpa.org. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment (in .pdf format)

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