

**MEMO# 3588**

March 12, 1992

## **AICPA STATEMENT OF POSITION ON HIGH-YIELD DEBT SECURITIES**

March 12, 1992 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 13-92 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: AICPA STATEMENT OF POSITION ON HIGH-YIELD DEBT SECURITIES \_\_\_\_\_ Enclosed for your review is a copy of the AICPA's Proposed Statement of Position (SOP): Financial Accounting and Reporting for High-Yield Debt Securities by Investment Companies. The proposal recommends: (1) Using the effective-interest method to report interest income on payment-in-kind (PIK) bonds and step bonds (2) Writing off interest receivable on defaulted high-yield debt securities in accordance with FASB No. 5, Accounting for Contingencies, and allocating the write-off between income, for the portion that had been recognized as income, and the cost of the related investment for the portion purchased (3) Reporting capital infusions in support of high-yield debt securities as additions to cost; reporting other expenditures, excluding workout expenditures, as additions to cost only to the extent that they increase legally enforceable claims against the issuer of the securities; and reporting workout expenditures as operating expenses (4) Procedures to be considered by auditors for reviewing the valuations of high-yield debt securities to be reported in financial statements Paragraphs 43 through 49 of the SOP "Accounting for Expenditures in Support of Defaulted Debt Securities". Commentators are asked to state specifically their views on the conclusion in paragraph 49, which is summarized in item (3) above. Comments are due to the AICPA by May 4, 1992. Please provide the Institute with any comments you wish to have included in the Institute's response by April 16, 1992. Kathleen C. Joaquin Director - Operations/ Fund Accounting Enclosure

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