

MEMO# 1825

April 6, 1990

FASB ISSUES FINAL STATEMENT REQUIRING DISCLOSURES OF OFF- BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

April 6, 1990 TO: CLOSED-END FUND MEMBERS NO. 14-90 SEC RULES MEMBERS NO. 28-90 ACCOUNTING/TREASURERS MEMBERS NO. 10-90 INDEPENDENT ACCOUNTANTS ADVISORY GROUP RE: FASB ISSUES FINAL STATEMENT REQUIRING DISCLOSURES OF OFF- BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Attached is FASB Statement No. 105, dated March 1990, Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk (the "Statement"). Investment companies affected by the Statement are principally those utilizing options, futures and forward currency contracts. The Statement is substantially unchanged from the exposure draft issued in July 1989 (See Memorandum to Accounting/Treasurers Committee No. 33-89 dated August 16, 1989). The Statement, which is effective for financial statements issued for fiscal years ending after June 15, 1990, requires all entities to disclose the following information about financial instruments with off-balance-sheet risk*: 1. The face, contract, or notional principal amount 2. The nature and terms of the instruments and a discussion of their credit and market risk, cash requirements, and related accounting policies 3. The accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and the collateral or other security, if any, for the amount due proved to be of no value to the entity. _____ * The term "off-balance-sheet risk" is defined generally in paragraphs 9, 10 and 11 of the Statement as risk of accounting loss that may exceed the amount recognized, if any, in an entity's statement of financial position. -2- 4. The entity's policy for requiring collateral or other security on financial instruments it accepts and a description of collateral on instruments presently held. The disclosure requirements are set out in more detail in paragraphs 17, 18 and 20 of the Statement. Appendix C of the Statement presents several illustrations applying the requirements as guides for implementation. The Institute's comment letter to the FASB generally supported the principles underlying the exposure draft but asserted, among other things, that the narrative parts of the disclosure requirements are already routinely made by investment companies in their current prospectuses. (See Memorandum to Closed-End Fund Members No. 44-89, SEC Rules Members No. 52-89, Accounting/Treasurers Members No. 4-89 and Independent Accountants Advisory Group dated October 3, 1989). The Statement provides, in paragraph 122, that the FASB does not object to incorporation by reference in the notes to the financial statements of the required disclosures appearing in

documents separate from the financial statements "... as long as that information is included elsewhere in the document containing the financial statements." The Statement is the product of the first phase of the FASB's overall project on financial instruments and off-balance-sheet financing. Subsequent phases will consider disclosure of other information about financial instruments and recognition and measurement issues. We will keep you informed of developments. Donald J. Boteler Director of Operations - Fund Accounting
Enclosure

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