

MEMO# 10565

December 14, 1998

DRAFT ICI COMMENT LETTER ON PROPOSED AUDIT GUIDE

1 See Institute memorandum to Accounting/Treasurers Committee No. 43-98, Tax Committee No. 31-98, dated October 14, 1998. [10565] December 14, 1998 TO: ACCOUNTING/TREASURERS COMMITTEE No. 51-98 TAX COMMITTEE No. 38-98 RE: DRAFT ICI COMMENT LETTER ON PROPOSED AUDIT GUIDE

As you know, the AICPA Accounting Standards Executive Committee (AcSEC) recently issued an exposure draft of a revised Audit and Accounting Guide, Audits of Investment Companies (Exposure Draft or Proposed Guide).¹ Among other things, the Proposed Guide provides new guidance on: a) amortization of premium and discount on fixed-income securities, b) organization and offering costs, c) liability recognition in connection with excess expense reimbursement plans, d) capital infusions and corrections of investment restriction violations, e) complex capital structures, and f) financial statement presentation of portfolio securities, the components of net assets and dividend distributions. The Proposed Guide also contains a specific chapter on taxation of investment companies. The attached draft comment letter supports proposed changes that would provide funds with an option to disclose their top 50 securities holdings in their financial statements. The draft comment letter also supports proposed changes to SOP 93-2 that would permit funds to reduce detailed components of net assets disclosures and combine detailed distribution disclosures into one line item in the statement of changes in net assets and the financial highlights. The Institute letter opposes mandatory amortization of premium/accretion of discount and argues that investment companies should be able to choose the financial accounting policy which best suits their investment objectives, policies and shareholder base. The letter notes that mandatory amortization of premium is unnecessary in light of standardized SEC measures of performance, will create book/tax differences, and fails to recognize the unique tax status of investment companies under Subchapter M. The Institute letter also opposes separate disclosure on the statement of operations of payments to the fund in connection with realized losses on the sale of securities that were purchased in violation of the fund's investment restrictions. The draft letter argues that this proposed requirement creates a disincentive for advisers to reimburse funds they manage in order to avoid the proposed disclosure. Comments on the Exposure Draft are due to the AICPA by December 22. If you have any comments on the attached draft comment letter please call or e-mail the undersigned at 202/326-5851 or smith@ici.org by December 21. If you have comments on the tax chapter (Chapter 6) of the Exposure Draft please call or e-mail Deanna Flores at 202/371-5436 or dflores@ici.org. Gregory M. Smith Director of Operations/ Compliance & Fund Accounting Attachment

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