

MEMO# 8384

November 8, 1996

SEC ISSUES GENERIC COMMENT LETTER FOR INVESTMENT COMPANY CFOS

November 8, 1996 TO: ACCOUNTING/TREASURERS MEMBERS No. 36-96 CHIEF CLOSED-END CONTACTS (CLOSED-END MEMBERS - ONE PER COMPLEX) No. 3-96 INDEPENDENT ACCOUNTANTS ADVISORY COMMITTEE No. 11-96 SEC RULES MEMBERS No. 68-96 RE: SEC ISSUES GENERIC COMMENT LETTER FOR INVESTMENT COMPANY CFOs

The Division of Investment Management recently issued the attached letter to the investment company industry to provide guidance on certain accounting and financial reporting issues. Set forth below is a brief summary of the issues addressed in the letter.

Accounting for Foreign Corporate Actions The letter notes that information relating to foreign corporate actions (e.g., dividends, stock splits, rights offerings, interest payments) is difficult for investment companies or their agents to obtain and verify on a timely basis. Nevertheless, generally accepted accounting principles require an investment company to record corporate actions affecting portfolio securities on the dates when they become effective (e.g., ex-dividend date, payment date) in order for the funds NAV to be correctly stated. The letter indicates that it would be inappropriate for an investment company to delay the recording of foreign corporate actions if the fund knew or, in the exercise of reasonable diligence, should have known that the corporate action had occurred. Reasonable diligence would generally require a fund to adopt procedures to obtain timely notification and verification of the effective date of the foreign corporate action. However, the letter also indicates that delayed recording of foreign corporate actions may be appropriate if the investment company, after exercising reasonable diligence, did not know that the corporate action had occurred.

Average Commission Rate Considerations The letter notes that the staff has responded to a number of questions relating to the recently adopted average commission rate paid on portfolio transactions disclosure in the financial highlights table. Apparently several registrants have expressed concern regarding the blending of both foreign and domestic commission rates for global and other funds that hold both foreign and domestic securities. The letter indicates that disclosure of a blended average commission rate is appropriate and that such disclosure can improve investors ability to evaluate and compare brokerage costs. Average commission rate disclosure should be based on actual commissions paid, translated into U.S. dollar equivalents, as required by the instructions to the financial highlights table. The fund may, at its option, add an explanatory note to the financial highlights table with respect to the components of the average commission rate paid, delineating the domestic, foreign or country-specific average commission rates.

Accounting for Liquidation Expenses The letter notes that estimated expenses associated with the liquidation of an investment company should be recorded as a liability to ensure that shareholders who remain in the fund do not pay a disproportionate share of the liquidation expenses. Consistent with Statement of Financial Accounting Standards No. 5,

Accounting for Contingencies, a liability should be recorded when it is probable that a liability has been incurred and the amount can be estimated. The letter also addresses: a) the undertaking to file updated financial statements required by Item 32(b) of Form N-1A in connection with the merger of two investment companies, b) presentation of the financial highlights in connection with a multi-class reorganization, c) the dating of financial statements where the reporting period ends on a non-business day; and d) presentation of the fee table in a closed-end offering in which an independent party had agreed to pay the closed-end funds expenses. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.