

MEMO# 7856

May 10, 1996

FASB NO. 119 DISCLOSURE EXAMPLES

May 10, 1996 TO: ACCOUNTING/TREASURERS COMMITTEE No. 17-96 RE: FASB NO. 119
DISCLOSURE EXAMPLES

Financial Accounting Standards Board Statement of Financial Accounting Standards No. 119 - Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments requires financial statement footnote disclosure about the amounts, nature, and terms of derivative financial instruments. In an effort to assist investment companies in their efforts to comply with FASB No. 119, the Institutes Accounting Policy Subcommittee ("APS") has reviewed selected mutual fund annual reports and prepared the attached compendium of financial statement footnote disclosures relating to derivative financial instruments. The attached guidance contains disclosures from 17 separate funds representing 13 investment company complexes. The guidance contains sample disclosures on futures, forwards, options and swaps. The guidance contains sample disclosures for derivatives held for purposes other than trading as well as disclosures for derivatives held for trading purposes, as those terms are used within FASB No. 119. The attached is intended to be the first in a series of documents to be issued from time to time by the APS providing guidance to the investment company industry on selected financial accounting issues. The format will document how individual funds are addressing selected accounting and disclosure issues. The Institute would like to acknowledge the following persons who were responsible for the development of the attached guidance: Rich Thomas, Federated Investors, Inc. Joe Grainger, Ernst & Young LLP Mark Michel, Ernst & Young LLP The APS has tentatively determined to develop similar guidance on the presentation of restricted securities and investments in affiliates (e.g. the fund owns 5% or more of the voting shares) in the schedule of investments and the financial statement footnotes. In addition, the APS intends to develop guidance on the gross up of expenses in connection with directed brokerage and compensating balance arrangements in response to the recent amendments to Rule 6-07 of Regulation S-X. Accordingly, please forward fund annual reports which contain these types of disclosures to the undersigned no later than May 31 so that the APS can initiate these projects. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting