MEMO# 7400

November 8, 1995

ICI White Paper on Foreign Currency Exchange Contracts

November 8, 1995 TO: ACCOUNTING/TREASURERS MEMBERS No. 51-95 INDEPENDENT ACCOUNTANTS ADV. GROUP No. 8-95 RE: ICI WHITE PAPER ON FOREIGN CURRENCY EXCHANGE CONTRACTS

____ The attached paper describes the accounting, financial reporting, tax and operational issues related to foreign currency exchange contracts ("FX Contracts"). The paper was developed by the Accounting Policy Subcommittee of the InstituteGs Accounting/Treasurers Committee ("A/TC") and was unanimously approved for dissemination to the ICI membership by the A/TC and the Independent Accountants Advisory Group. The paper is intended to provide technical guidance to ICI members on FX Contracts, a type of derivative security frequently used by investment companies to hedge currency exchange rate risk. An FX Contract is an agreement between two parties to exchange foreign currency at a specified price, on an agreed upon future date. Investment companies use FX Contracts for various reasons, including converting interest and dividend payments on foreign currency denominated securities into US dollars, settling foreign currency denominated security purchases and sales, and hedging exchange rate risk on portfolio securities. The Institute would like to recognize the contributions of the paperGs principal authors: Kathryn J. Hyatt, The Vanguard Group Marie K. Karpinski, Legg Mason Wood Walker, Inc. Maryanne Roepke, Twentieth Century Mutual Funds Bruce J. Smith, Van Eck Associates Corporation Teresa S. Westbrook, Merrill Lynch Asset Management Please feel free to contact the undersigned or those named above with any questions on the paper. Gregory M. Smith Director - Operations/ Compliance & Fund Accounting Attachment