

COMMENT LETTER

June 25, 2007

ICI Files Letter Supporting Modified Audit Opinion That Would Enable Money Market Funds to Omit Portfolio Holdings From Shareholder Reports (pdf)

25/20076/25/20076/25/2007 June 25, 2007 Mr. John Wolfson Chair – SEC Regulations Committee AICPA 1211 Avenue of the Americas – 19th Floor New York, NY 10036 Re: Audit Opinion Relating to Money Market Fund Financial Statements that Omit the Schedule of Investments from the Shareholder Report Delivered to Shareholders Dear Mr. Wolfson: The AICPA Investment Companies Expert Panel (“EP”) recently submitted to the SEC Regulations Committee (“Committee”) a proposed form of audit opinion that would enable money market funds to omit the schedule of investments from their shareholder reports, consistent with recent SEC rule changes. The Investment Company Institute¹ strongly supports the EP’s proposed form of audit opinion and encourages the Committee to enable auditors to use it so that the intent of the SEC’s recent rule changes may be realized. As described more fully below, we estimate these changes may reduce fund printing and mailing expenses by several million dollars per year. Background SEC registered investment companies are required to distribute semi-annual financial statements to their shareholders within 60 days after the reporting period ends. The SEC requires that investment company financial statements be audited by a registered public accounting firm on an annual basis. Investment companies must file their financial statements with the SEC within 10 days after they are distributed to shareholders. Registered investment company financial statements must include a schedule of investments listing each investment security held by the fund. Such listing must 1 The Investment Company Institute is the national trade association of the U.S. investment company industry. ICI members include 8,781 open-end investment companies (mutual funds), 665 closed-end investment companies, 428 exchange-traded funds, and 4 sponsors of unit investment trusts. Mutual fund members of the ICI have total assets of approximately \$10.917 trillion (representing 98 percent of all assets of US mutual funds); these funds serve approximately 93.9 million shareholders in more than 53.8 million households. 2 provide the name or title of each security, the principal or share balance, and the value of each investment security at the close of the period. In February, 2004 the SEC modified its shareholder reporting requirements by enabling money market funds to omit the schedule of investments from their annual and semi-annual reports delivered to shareholders.² Under the 2004 Rule Changes, money market fund financial statements, including the schedule of investments, continue to be subject to annual audit by a registered public accounting firm. In order to

ensure shareholder access to the detailed listing of fund holdings, the Commission required money market funds to state in the shareholder report that the schedule of investments is available without charge, upon request by contacting the fund company or financial intermediary through which the shares were purchased.³ The schedule of investments also must be filed with the SEC on Form N-CSR⁴ and would be available through the Commission's website. Despite the 2004 Amendments, money market funds have not been able to omit the schedule of investments from their shareholder reports. The AICPA Audit and Accounting Guide Investment Companies requires investment company financial statements to include a schedule of investments. As a result, we understand audit firms have been unwilling to provide an unqualified opinion on money market fund financial statements that omit the schedule of investments from the report delivered to shareholders. We believe these audit firms take the view that the audit opinion must address all required financial statements and that the omission of any statement or schedule from the document delivered to shareholders would be considered a departure from GAAP. An additional issue to be considered is whether PCAOB standards would permit the audit opinion to reference a schedule that is not a part of the financial statements delivered to shareholders.

Discussion The standard investment company audit opinion indicates that the independent public accounting firm has audited the accompanying financial statements and includes a reference to the schedule of investments. The EP's proposed form of audit opinion would make clear that while the schedule of investments has been subject to audit, it is not included with the accompanying financial statements. The proposed audit opinion also would indicate that the schedule of investments is available from the fund.

2 Shareholder Reports and Quarterly Portfolio Disclosure of Registered Investment Companies, SEC Release Nos. 33-8393; 34-4933; IC-26372 (February 27, 2004) (the "Rule Changes"). A copy of the SEC's release is available from the SEC's website at <http://www.sec.gov/rules/final/33-8393.htm>.

3 Whenever a fund or financial intermediary receives such a request, it must send a copy of the schedule within three business days by first class mail or other means designed to ensure equally prompt delivery.

4 Form N-CSR, Certified Shareholder Report of Registered Management Investment Companies, must include, among other things, the fund's financial statements, including a schedule of investments, as required by Regulation S-X.

3 Some may be concerned that financial statement readers do not have access to all the financial statements that are covered by the auditor's opinion because the schedule of investments would not physically be a part of the report delivered to shareholders. We believe such concern is adequately addressed by the reader's ability to request a copy of the schedule of investments from the fund company and to access the schedule through the Internet. Nearly all mutual fund shareholders have access to the Internet and many use it regularly for financial purposes (e.g., to check account balances, obtain investment information or buy or sell investments).⁵ In its release adopting the Rule Changes, the SEC indicated that money market fund portfolio holdings disclosure in reports to shareholders is not necessary because fund investments are circumscribed by the credit quality, maturity and portfolio diversification requirements of rule 2a-7 under the Investment Company Act of 1940. Rule 2a-7 generally limits money market fund investments to U.S. dollar denominated instruments rated within the two highest short-term rating categories with a remaining maturity of 397 days or less. Rule 2a-7 also limits investments in any one issuer's securities in order to minimize investment risk. Further, money market funds must maintain a dollar-weighted portfolio maturity of 90 days or less. As a result of these risk-limiting restrictions, money market fund portfolio holding schedules typically contain a list of short-term government and corporate debt securities that may not assist the average investor in evaluating the money market fund, or in distinguishing the performance or risk profile of one money market fund from another. Moreover, by the time an investor receives the

shareholder report, many – if not most – of the securities will have turned over due to the short-term nature of the fund’s holdings. Potential for Cost Savings The SEC release adopting the Rule Changes described the significant cost savings that could result from enabling money market funds to omit the schedule of investments from their annual and semi-annual shareholder report mailings. It is important to note that these printing and mailing costs typically are allocated to the fund and are part of the fund’s reported expenses. Accordingly, we believe any savings realized would benefit the fund and its shareholders by reducing fund expenses and increasing fund returns. The SEC estimated the potential for cost savings by multiplying the aggregate number of pages that could be omitted from fund shareholder reports by the cost per page. Using similar methodology and updating the SEC’s estimate (which was based on 2002 year-end data) we believe money market funds could save several million dollars in printing and mailing costs on an annual basis.⁶ 5 Recent Institute research found that 92% of fund investors have Internet access and that 79% used the Internet for financial purposes. See *Ownership of Mutual Funds and Use of the Internet*, 2006; ICI Research Fundamentals, (October 2006) available at <http://www.ici.org/stats/res/index.html#TopOfPage>. 6 As of year-end 2006, there were approximately 38.4 million shareholder accounts in money market funds. For each account, funds are required to provide an annual and semi-annual shareholder report. Assuming that the SEC’s “householding” rules would reduce the number of shareholder reports by 10%, we estimate that money market funds currently print and deliver approximately 69.1 million shareholder reports per year (38.4 million accounts x 2 reports x .9). If 70% of these reports are issued by funds that take advantage of the Rule Changes to omit the schedule of investments, 48.4 million shareholder reports would be streamlined, reducing printing and mailing costs. If money market funds reduce 4 Conclusion We urge the Committee to enable auditors to use the EP’s proposed form of audit opinion so that the intent of the Commission’s 2004 amendments to money market fund shareholder reporting rules may be realized. These changes, which would benefit fund shareholders through cost savings – while ensuring ready access to portfolio holdings information – should not be impeded by technical auditing considerations. Please contact the undersigned at 202/326-5851 if you have any questions on this submission. Sincerely, /s/ Gregory M. Smith Director – Operations/ Compliance & Fund Accounting cc: Brian Gallagher Chair – AICPA Investment Company Expert Panel Irina Portnoy Technical Manager – AICPA Richard F. Sennett Chief Accountant – Division of Investment Management U.S. Securities and Exchange Commission their printing and mailing costs by only one page per shareholder report, at an estimated cost of \$.02 per page, money market funds could save approximately \$968,000 per year (48.4 million x \$.02 per page). We believe actual cost savings may substantially exceed this estimate for two reasons. First, the complete schedule of investments typically requires several pages. Indeed, we are aware of certain money markets funds whose schedule of investments exceeds 30 pages. Second, the number of shareholder accounts (38.4 million) cited above is a lower bound as it includes a mix of individual and omnibus accounts.

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