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SEPTEMBER 28, 2012

Avoiding Disclosure Overload in Fund Financial Statements

By Gregory Smith

Shareholders of SEC-registered investment companies regularly receive detailed financial statements, a key part of the disclosure regime that produces transparency for fund investors. A recent proposal from the Financial Accounting Standards Board (FASB) could layer unnecessary requirements onto those statements. We've just filed a comment letter with FASB to register our concerns with the proposed requirements, which would apply to all companies. Our comments reflect our concern that the proposal doesn't consider the extensive disclosures SEC-registered funds already provide.

One new requirement would be the addition of an "available liquid funds table," showing a fund's unencumbered cash, high-quality liquid assets, and borrowing availability. Funds, however, already must include in their financial statements a comprehensive schedule of investments that lists securities by type, combined with subtotals and percentage relative to net assets. This listing provides fund financial statement users with a complete understanding of available liquid funds. Thus, in our view, this table would be redundant.

Moreover, the high degree of portfolio liquidity mandated for open-end funds—which must stand ready to redeem fund shares and pay redemption proceeds within seven days of a redemption request—further limits the utility of the available liquid funds table.

We also have concerns with another proposed table, one that would present information on liabilities and other cash flow obligations. For many funds, such as index and money market funds, cash flow obligations typically are very small relative to total net assets. For others, more significant cash flow obligations may arise from short sales, derivatives transactions, or the purchase of securities on a when-issued basis.

A fund should not be required to include the proposed cash flow obligations table if it has no material cash flow obligations. In our letter, we recommend that FASB consider a framework for assessing whether a fund should provide this table. The framework we envision would be similar to that currently used by funds to assess whether they must present a statement of cash flows in their financial statements.

This approach would avoid funds providing disclosure that would be of little or no value to financial statement users, while ensuring that funds with significant cash flow obligations would provide the proposed disclosure.

Gregory Smith was senior director of operations, compliance, and fund accounting for ICI.