Financial accounting and reporting by face-amount certificate companies: proposal to the Financial Accounting Standards Board to amend AICPA Industry audit guide on audits of investment companies with respect to face-amount certificate companies. December 10, 1974; Statement of position 74-11;

American Institute of Certified Public Accountants. Accounting Standards Division

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sop

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation

https://egrove.olemiss.edu/aicpa_sop/163

This Article is brought to you for free and open access by the American Institute of Certified Public Accountants (AICPA) Historical Collection at eGrove. It has been accepted for inclusion in Statements of Position by an authorized administrator of eGrove. For more information, please contact egrove@olemiss.edu.
Proposal to Financial Accounting Standards Board to Amend AICPA Industry Audit Guide on Audits of Investment Companies with Respect to Face-Amount Certificate Companies
Notes

The American Institute of Certified Public Accountants has issued a series of industry-oriented Audit Guides that present recommendations on auditing procedures and auditors' reports and in some instances on accounting principles, and a series of Accounting Guides that present recommendations on accounting principles. Based on experience in the application of these Guides, AICPA Task Forces may from time to time conclude that it is desirable to change a Guide. A Statement of Position is used to revise or clarify certain of the recommendations in the Guide to which it relates. A Statement of Position represents the considered judgment of the responsible AICPA Task Force.

To the extent that a Statement of Position is concerned with auditing procedures and auditors' reports, its degree of authority is the same as that of the Audit Guide to which it relates. As to such matters, members should be aware that they may be called upon to justify departures from the recommendations of the Task Force.

To the extent that a Statement of Position relates to standards of financial accounting or reporting (accounting principles), the recommendations of the Task Force are subject to ultimate disposition by the Financial Accounting Standards Board. The recommendations are made for the purpose of urging the FASB to promulgate standards that the Task Force believes would be in the public interest.
December 10, 1974

Marshall S. Armstrong, CPA
Chairman
Financial Accounting Standards Board
High Ridge Park
Stamford, Connecticut 06905

Proposal to Amend
AICPA Industry Audit Guide on
Audits of Investment Companies
With Respect to
Face-Amount Certificate Companies

Dear Mr. Armstrong:

The accompanying Statement of Position, prepared by the Accounting Standards Task Force on Investment Companies, proposes amendments to the AICPA Industry Audit Guide on Audits of Investment Companies which would exclude face-amount certificate companies from the general definition of investment companies set forth in the Guide. Accordingly, these companies (there are four in active operation at the present time) would not be required to follow the accounting provisions of the Guide.

While issuance of this Statement of Position will be helpful to independent auditors, we urge that FASB advise the accounting profession at an early date as to whether it believes the proposed amendments are appropriate and should be regarded as having the same authoritative support as the Audit Guide itself.

Members of the Task Force will be glad to meet with you or your representatives to discuss this proposal. The Task Force would also appreciate being advised as to the Board's proposed action on its recommendations.

Sincerely yours,

ACCOUNTING STANDARDS TASK FORCE ON INVESTMENT COMPANIES

James H. Muller, Chairman
Charles Adams
Philip L. Cohen
S. Leland Dill
Robert J. Gummer

Edwin N. Hanlon
William T. Kennedy
David A. O'Keefe
Frederick M. Werblow
John Woodcock, Jr.
BACKGROUND INFORMATION

The AICPA Industry Audit Guide sets forth the following general definition of the investment company industry:

"The business of an investment company consists of selling its capital shares to the public, investing the proceeds - for the most part in securities - in a manner seeking to achieve its announced investment objectives, and distributing to its shareholders the net income from, and the net gains realized on sales of, its investments. Generally, an investment company can be said to be a pooling of funds by shareholders to avail themselves of professional investment management."1/

The Guide then includes face-amount certificate companies as investment companies to which the Guide is applicable by the following:

"Within the umbrella of the above general definition fall many forms of investment companies, including management investment companies, face-amount certificate companies (emphasis supplied), unit investment trusts, collective trust funds, investment partnerships, and 'offshore funds'."2/

2/ Ibid.
In its Glossary, the Guide defines a face-amount certificate as "A security representing an obligation of the issuer to pay a stated amount at a fixed date in the future, the consideration for which is either payment of periodic installments of a stated amount or a single lump payment." A face-amount certificate company is "An investment company engaged in the business of issuing face-amount certificates of the installment type."3/

The task force has reconsidered the appropriateness of including face-amount certificate companies in the definition of "investment companies" included in the Guide.

RECOMMENDATION

The Task Force believes that face-amount certificate companies do not fall within the general definition of investment companies set forth in the Guide and, therefore, such companies should not be required to follow the accounting provisions of the Guide.

Specifically, the Task Force believes that Audits of Investment Companies should be amended as follows:

(a) The phrase "face-amount certificate companies", should be deleted from the first sentence of the second paragraph on page 1 of the Guide.

(b) The definition of a face-amount certificate company on page 141 of the Guide should be changed to read, "A company (not an "investment company" as defined elsewhere herein, but subject to the provisions of the Investment Company Act of 1940) engaged in the business of issuing face-amount certificates of the installment type."

3/Ibid., p. 141
REASONS FOR RECOMMENDATIONS

The Guide's definition of an investment company quoted earlier in this Statement of Position is not met by face-amount certificate companies for the following reasons:

(a) The business of a face-amount certificate company does not consist of "selling its capital shares to the public". Such companies (there are only four in active operation at the present time) are in the business of selling certificates which are fixed obligations and liabilities of the company.

(b) A face-amount certificate company does not distribute to its certificate holders "the net income from, and the net gains realized on sales of, its investments".

(c) A face-amount certificate company does not pool funds obtained from its shareholders. It pools the funds obtained from its certificate holders with the hope that the investments made will both satisfy the company's obligations to those certificate holders and result in a profit for shareholder(s).

Because of these essential differences between face-amount certificate companies and investment companies, which were not recognized in the Guide, it is not appropriate to define face-amount certificate companies as a type of investment company for the purposes of the Guide and, therefore, such companies should not be required to follow the accounting provisions of the Guide.

* * * * *