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August 11, 2015

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: File Reference No. S7-08-15: SEC Proposed Rule, *Investment Company Reporting Modernization*

Dear Mr. Fields:

Deloitte & Touche LLP ("D&T") is pleased to respond to the request for comments from the Securities and Exchange Commission (the "SEC" or the "Commission") on the proposed rule *Investment Company Reporting Modernization* ("proposed rule") which would amend the Commission's rules and forms to modernize the reporting and disclosure of information by registered investment companies and business development companies ("BDCs").

OVERALL COMMENTS

We support the SEC's objective to improve the information that investment companies report to the Commission and investors to better fulfill its mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. In general, improved transparency benefits all market participants and, most importantly, stands to help investors to make more informed investment decisions.

We believe that the proposed rule related to the Commission's modernization project is consistent with the SEC's stated objective of improving the type and format of information regarding fund activities that investment companies provide to the Commission and investors to assist the Commission in its role as primary regulator and aid investors in their analysis. We have comments, however, that we offer to help ensure that the final rule amendments that are ultimately adopted result in information that is timely, useful, and meaningful as well as clear to investors and other potential users of this information.

From our vantage point as a registered public accounting firm, we offer the following comments related to the proposed amendments to Regulation S-X concerning accounting and disclosure requirements for registered investment companies and BDCs. We have also included one item for consideration regarding an aspect of Form N-PORT.

AMENDMENTS TO REGULATION S-X

Requirement to Identify Investments That Are Illiquid (Pages 115–116)

We note that the Commission currently defines "illiquid asset" as "an asset that cannot be sold or disposed of by the Fund in the ordinary course of business within seven calendar days, at approximately the value ascribed to it by the Fund."[1] The SEC's proposed amendments to Rules 12-13 through 12-13D are intended to provide investors with greater transparency regarding which investments are deemed illiquid. Such disclosures presumably would provide investors with information suggesting which investments in the fund might be sold at less than carrying value (i.e., fair value) if the portion of the fund's investments were to be sold quickly in other than an orderly transaction to meet cash needs (e.g., for significant fund redemptions). We suggest that the Commission consider the following in deciding whether to adopt this disclosure requirement:

- Given the level of judgment involved in forecasting whether an asset can be sold or disposed of in the ordinary course of business within seven calendar days at approximately the value ascribed to it by the fund, we believe that there are inconsistencies among registrants in the methods used to make such determinations. Such inconsistencies could lead to the inclusion of incomparable illiquidity disclosures in the financial statements of various funds.

- We question the usefulness of illiquidity disclosures to investors, particularly given the time between the date of the annual report and the time such information becomes available to the public (60 days after the measurement date). Investments that are deemed liquid as of the reporting date could become illiquid by the time the document is available, and vice versa.

- As discussed in our first observation above, determination of liquidity is a highly subjective management estimate, representing a forecast about the ability of the fund's portfolio managers and traders to liquidate an investment on the basis of information observed in the market. If the Commission were to proceed with requiring these disclosures, (1) external auditors would most likely need to involve specialists who have deep experience with particular financial instruments and markets to obtain sufficient evidence to corroborate management's assumptions used to reach a conclusion regarding liquidity and (2) there would need to be clear expectations or requirements for investment companies in developing these estimates that are aligned with any new responsibilities for auditors. We further observe that, for certain asset classes, the appropriate expertise to assess liquidity may be in short supply. These circumstances could result in increased financial statement preparation costs and higher audit costs. Disproportionate increases in audit costs will most likely result if the requirements for auditors are not aligned with those of management.

On the basis of our observations above, we suggest that if the SEC proceeds with the proposed rule, it should consider requiring registrants to label the disclosure of illiquid investments as "unaudited subject to change based on market condition". This alternative would mitigate the complexities with auditing illiquidity disclosures and alleviate increased financial statement and audit costs while still

[1] See page 496 of the proposed rule. We also note that, as stated by Chair Mary Jo White in a December 11, 2014, speech, the Division of Investment Management is considering a recommendation that the Commission update liquidity standards for open-end funds and exchange-traded funds, which may result in updated guidance on this issue.

providing greater transparency to investors regarding risk exposures related to illiquid investments held by the fund.

Modification of Title and Description of Article 6 to Include Business Development Companies (Page 139)

We support the Commission's proposal to change the title and description of Article 6 of Regulation S-X from "Registered Investment Companies" to "Registered Investment Companies and Business Development Companies" to clarify that BDCs are subject to Article 6. We believe that while most BDCs already apply the disclosure requirements in Article 6, the current definition of a registered investment company may cause some to believe that BDCs are precluded from reporting in accordance with Article 6. The proposed amendment would clarify the requirement and diminish potential differences of interpretation.

In addition, we are aware of certain registrants that report under the Securities Exchange Act of 1934 and meet the definition of an investment company under Financial Accounting Standards Board ("FASB") or International Financial Reporting Standards ("IFRS") yet are not registered under the Investment Company Act. These registrants prepare their financial statements in accordance with ASC 946[2] (or the IFRS equivalent) and Article 6 of Regulation S-X. We suggest that the Commission use this as an opportunity to clarify that Article 6 applies to such registrants in addition to registered investment companies and BDCs.

Presentation of Consolidated Investments Without Indicating Which Are owned Directly by the Fund or Which Are Owned by the Consolidated Subsidiaries (Page 140)

The Commission is seeking comment on whether to eliminate Rule 6-10(a) on the basis of the idea that a fund and its consolidated subsidiaries should present their consolidated investments for each applicable schedule without indicating which are owned directly by the fund and which are owned by the consolidated subsidiaries. We suggest that the Commission reconsider this proposal, since we believe that information about the specific entities' ownership may make the structure of the fund more transparent to investors. We acknowledge that fund disclosures sometimes include a distinction in the schedule of investments between investments owned directly by the fund and those owned by its consolidated subsidiaries and differentiate the company's economic risk associated with the investments in the consolidated fund. We believe that this distinction is relevant and can provide investors with useful information. For example, if certain consolidated investments are owned by a consolidated subsidiary domiciled in a foreign jurisdiction where the political climate might be unstable or where creditors may have inferior or superior rights to assets, investors are better served when informed of these economic distinctions.

Securities-Lending Activities (Page 143)

The Commission is proposing that funds disclose "the details of any other fees paid directly or *indirectly*, including any fees paid directly by the registrant for cash collateral management and any

[2] FASB Accounting Standards Codification Topic 946, *Financial Services — Investment Companies*.

management fee deducted from a pooled investment vehicle in which cash collateral is invested"[3] (emphasis added). However, indirect fees are typically a management's estimate that is imprecise and difficult to quantify and that external auditors would need to perform additional procedures to validate. We therefore recommend that the Commission omit the requirement to disclose indirect fees since we do not believe that such disclosures would provide investors with significant additional transparency about fund activities and we think that the additional costs of auditing the disclosure of these fees would most likely outweigh any benefits of reporting this financial information to investors.

FORM N-PORT

We support the Commission's proposal to require funds to report information on Form N-PORT in a structured data format so that the Commission, investors, and other potential users could more easily create databases of fund portfolio information to be used for data analysis. We recommend that, when selecting the format for structured data to be used for reporting, the Commission consider using the existing data structures already in place. For example, the Commission already operates and maintains eXtensible Business Reporting Language (XBRL) data dictionaries that contain most, if not all, of the required data elements included in the proposed rule, and these same XBRL taxonomies are also the basis for the existing Form N-MFP reporting. A consistent format for the structured data used for reporting on Form N-PORT would allow potential users of this data to consolidate software investment and processes with respect to a particular data standard, leading to lower costs and creating efficiencies for investors and other potential users.

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We appreciate the opportunity to provide our perspectives on these important topics. If you have any questions or would like to discuss these issues further, please contact Bryan J. Morris at 703-885-6200 or Tom Omberg at 212-436-4126.

Sincerely,

Deloitte & Touche LLP

Deloitte & Touche LLP

cc: Mary Jo White, SEC Chair
Luis A. Aguilar, SEC Commissioner
Daniel M. Gallagher, SEC Commissioner
Michael S. Piwowar, SEC Commissioner
Kara M. Stein, SEC Commissioner
David Grim, Director, Division of Investment Management

[3] See page 143 of the proposed rule.