

Accounting Matters Bibliography

“Dear CFO Letters” reflect staff positions from the Chief Accountant’s Office of the Division of Investment Management (“the Division”) to the Chief Financial Officer of the Division’s registrants and other relevant parties. The staff issues Dear CFO Letters to assist registered investment companies and business development companies and their independent public accountants in addressing certain accounting, auditing, financial reporting, or other related disclosure matters (collectively “accounting matters”).

The Accounting Matters Bibliography below lists current staff positions expressed in Dear CFO letters and includes updates on whether the staff position has been rescinded, modified, or supplemented. Each position is identified with the year the Dear CFO Letter was issued and the chronological number of the position expressed in the letter. The full text of each Dear CFO Letter is located on the Division’s website under [Disclosure, Accounting and Disclosure Information](#) or [Staff Letters](#).

The statements in the Accounting Matters Bibliography represent the views of the staff of the Division. They are not a rule, regulation, guidance, or statement of the Commission, and the Commission has neither approved nor disapproved their content. These statements, like all staff guidance, have no legal force or effect: they do not alter or amend applicable law, and create no new or additional obligations for any person. These staff positions should be read in conjunction with the other staff views related to accounting matters published on the Division’s website under [Disclosure, Accounting and Disclosure Information](#).

If you have questions or would like to provide feedback on these or other accounting matters specific to investment companies, please contact the staff of the Division’s Chief Accountant’s Office, via email at IM-CAO@SEC.GOV.

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1994-01</p> <p>Accounting For Certain Transactions with Affiliates</p>	<p>Dear CFO (11/01/1994)</p>	<p>Affiliates¹ sometimes compensate funds for losses on certain of their investment holdings. The contributions generally take one of two forms – a direct contribution by the affiliate to the fund to offset the effect of a realized loss on a portfolio investment (“direct contribution”) or the purchase by the affiliate of securities from the fund at prices in excess of the securities' current market value (“affiliated purchase”). In both cases, the accounting for the loss on the investment and the resulting payment should be reflected in a fund's financial statements as a realized loss and a corresponding contribution to capital.</p> <p>Cash (or other assets) received from an affiliate as a direct contribution should be reflected by the fund in its financial statements in the statement of changes in net assets immediately after the capital share transactions section and in the financial highlights table immediately following the "distributions" section. Notes to the financial statements and financial highlights table should describe these contributions. In addition, footnotes to the total return disclosure in the table should quantify the effect of the capital contribution in a manner similar to disclosure for the effect of voluntary waivers of fees and expenses.²</p> <p>Affiliated purchases at a price in excess of the current market value³ do not reduce the loss that would otherwise have occurred if the investment had been sold to an unaffiliated person. The amount by which the payment exceeds the current market value of the investments purchased is considered a contribution to capital, and the accounting should be the same as that for direct contributions.</p> <p>Funds should consider the non-financial statement disclosure implications surrounding the contribution and the related accounting treatment, including the Management's Discussion of Fund Performance required by Item 27(b)(7) of Form N-1A. The narrative disclosure should be consistent with the related financial statement disclosure referred to above.</p>
<p>¹ The term "affiliate" as used in this context is as defined by the Commission's Regulation S-X Item 6-02(a) (17 CFR §210.6-02(a)). This comment does not address situations involving non-affiliates. The accounting for such non-affiliated transactions should be reviewed on a case-by-case basis.</p> <p>² In addition to the general guidance in Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 850, <i>Related Party Disclosure</i>, specific requirements are set forth in Chapter 7 of the AICPA Audit and Accounting Guide for Investment Companies (Paragraph 7.138 of the July 1, 2019 version).</p> <p>³ Unless facts indicate otherwise, the staff views purchases of fund investments by affiliates under the circumstances described in this letter as being at a price in excess of market value. This letter is not intended to express any views on the implications of any transactions described under section 17 of the Investment Company Act of 1940 (“1940 Act”).</p>		

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<p>1994-02</p> <p>Valuation of Certain Portfolio Investments</p>	<p>Dear CFO (11/01/1994)</p>	<p>In recent years, investment companies have made increasing use of certain instruments that, under some market conditions, may require valuation by the companies' boards of directors. The Commission's <i>Accounting Series Releases (ASRs) 113 and 118</i> provide guidance in the valuation, accounting and auditing of these investments. This guidance requires clearly defined policies and procedures to be established by an investment company's board of directors and any deviation from these policies and procedures to be disclosed in the financial statements or notes thereto. These policies and procedures should encompass all appropriate factors relevant to the valuation of investments for which market quotations are not readily available.</p> <p>In determining whether market quotations are readily available, Section 404.03.b.iii of the Codification of Financial Reporting Policies reiterates the guidance in ASR 118, which states that "quotations for a security should be obtained from more than one broker-dealer....If the validity of the quotations appears to be questionable, or if the number of quotations indicates that there is a thin market in the security, further consideration should be given to whether market quotations are readily available." Where it is determined that market quotations are readily available, the certifying accountant should independently verify all the quotations used by the company at the balance sheet date. With respect to valuation of non-exchange-traded investments by a certifying accountant, independent verification should be interpreted as reliance on quotations received from a source independent of the source used by the client.</p> <p>The guidance in ASRs 113 and 118 also applies to investments for which there are few market makers or broker-dealers¹ providing market quotations. The staff believes, where there are few market makers or broker-dealers providing market quotations (as in the case of structured notes), the independent verification guidance set forth above requires the independent public accountant to seek verification from a market maker or broker-dealer different from that used by the company. In the case of only one market maker or broker-dealer providing a market quotation, the independent public accountant should employ alternative valuation procedures that provide an accurate and reasonable valuation.</p>
<p>¹ The terms "market maker" and "broker-dealer" as used in this context have the same meaning as those in ASRs 113 and 118. These releases have been codified in Sections 404.04 and 404.03 respectively, in the Codification of Financial Reporting Policies.</p>		
<p>1994-03</p> <p>Audited Balance Sheet for New Series</p>	<p>Dear CFO (11/01/1994)</p>	<p>Although the staff has interpreted Section 14(a)(2) of the 1940 Act generally to permit a new series of a fund to make a public offering of securities without having at least \$100,000 of net worth, a fund registering a new series may sell one or more shares of the series to a single shareholder, usually affiliated with the fund. In such cases, regardless of the amount invested by the initial shareholder or shareholders prior to the effectiveness of the registration, an audited balance sheet is required in the registration statement in accordance with Item 25, Schedule A of the Securities Act of 1933. This requirement also applies to those companies distributing insurance products which are allowed an exemption under Rules 6e-2(b)(6), 6e-3(T)(b)(6) and 14a-2 under the Act which, despite the exemption, decide to seed the insurance products' company with initial capital.</p>
<p>1994-04</p> <p>Securities With Zero Value</p>	<p>Dear CFO (11/01/1994)</p>	<p>The schedule prescribed in Rule 12-12 of Regulation S-X contemplates the listing of each security a fund owns in the schedule of investments. A fund that owns securities considered to be worthless should continue to list those securities in its schedule of investments indicating a zero value. Only after the fund has classified the security as a worthless security for federal income tax purposes should any security be removed from the listing. Omitting securities from the schedule prior to the determination of worthlessness for tax purposes may be misleading to investors interested in evaluating the fund's investments.</p>

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<p>1995-01</p> <p>Applying FASB ASC Topic 815 to Investment Companies</p>	<p>Dear CFO (02/03/1995)</p>	<p>ASC Topic 815 requires financial statement disclosures about certain derivative financial instruments. ASC Topic 815 makes a distinction between financial instruments held or issued for trading purposes and financial instruments held or issued for purposes other than trading.¹ The Staff recognizes that funds could have instruments in their portfolios from both categories, depending on the purpose for which the derivative is held or issued.</p> <p>Investment companies should designate each derivative covered by ASC Topic 815 as either held or issued for trading purposes or held or issued for purposes other than trading, and should make the designation at the time the derivative financial instrument is acquired. Funds have a continuing obligation to regularly evaluate the appropriateness of the original designations which could lead to changes in a designation, and, accordingly, differences in disclosure requirements during the holding period of the instrument.</p>
<p>¹ See FASB ASC Topic 815-10-45-9 and 815-10-55-62.</p>		
<p>1995-02</p> <p>Presentation and Accounting for Enhanced Securities</p> <p>1. Valuation</p>	<p>Dear CFO (02/03/1995)</p>	<p>The staff has recently addressed several issues related to the accounting for and financial statement presentation of enhanced securities¹. These issues have included 1) the separate valuation of the components of such investments; 2) the appropriate financial statement presentation of these components; and 3) the contribution to capital to be recognized for the enhancement.</p> <p>(1) Valuation: The credit enhancements have been segregated into the two commonly used types, typically issued through the adviser: non-transferable put options (which expire at or prior to maturity of the enhanced security) and non-transferable letters of credit (“LOCs”) (which expire at maturity of the enhanced security).² For these enhancements, the staff believes that valuing each component separately is appropriate. For example, a security with a market value of 70, linked with a 90-day put option (or LOC) allowing the fund to put the security to the adviser (or draw against the LOC) for 95, would be valued at 70; the value attributable to the enhancement would be 25.³</p>
<p>¹ Enhanced securities include separate and distinct credit mechanisms provided to maintain the carrying value of an investment.</p> <p>² Although not specifically addressed here, "portfolio insurance", not tied to an individual security but guaranteeing the timely payment of interest and principal for investments in the portfolio, is also considered a form of enhancement requiring the disclosure, valuation and capital recognition discussed herein.</p> <p>³ The views expressed herein do not address and are not meant to resolve the issues presented by Sections 17(a) and (d) of the 1940 Act which prohibit certain transactions between an investment company and affiliated persons.</p>		
<p>1995-03</p> <p>Presentation and Accounting for Enhanced Securities</p> <p>2. Presentation</p>	<p>Dear CFO (02/03/1995)</p>	<p>(2) Presentation: Separate and distinct disclosure of the components of a credit-enhanced security provides a more complete and meaningful presentation to fund shareholders, and is required by Items 6-04.1 and 6-04.3 of Regulation S-X which require the disclosure of investments in securities of unaffiliated issuers separate from the disclosure of investments other than securities. The staff would not object to presentation of <u>separate</u>, contiguous disclosure on the face of the portfolio of investments schedule of the security (at market value without the enhancement) and the enhancement (valued at the difference between carrying value of the security with the enhancement and market value of the security without the enhancement). For put options, the presentation on the portfolio of investments schedule should describe the option as being from an affiliated party (if applicable) with the name and relationship of the affiliate, and any terms and conditions of the put discussed in a note to the financial statements. If the enhancement is a LOC, the name of the financial institution providing the LOC should be separately disclosed in the notes to the financial statements along with the terms, conditions and other arrangements related to the LOC.¹ Disclosure should also comply with the requirements of FASB ASC Topic 850, <i>Related Party Disclosures</i> (“ASC Topic 850”), issued by the Financial Accounting Standards Board. The staff views the relationship between an adviser and a financial institution issuing a LOC (as an enhancement) as being encompassed by ASC Topic 850.</p>
<p>¹ Separate disclosure is not required for the components of a security which at the time of the fund's purchase included a LOC.</p>		

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1995-04 Presentation and Accounting for Enhanced Securities 3. Transferable Enhancements	Dear CFO (02/03/1995)	<p>(3) Transferable Enhancements: The separate valuation and presentation of the components of investments with transferable enhancements (regardless of when the enhancement attaches) would not be required. The presentation of securities with transferable enhancements on the portfolio of investments schedule should identify the name and relationship of the issuer of the enhancement. The terms, conditions and other arrangements related to the enhancement should be disclosed in the notes to the financial statements.</p>
1995-05 Presentation and Accounting for Enhanced Securities 4. Contribution to Capital	Dear CFO (02/03/1995)	<p>(4) Contribution to Capital: In keeping with related guidance,¹ the staff believes a contribution to capital is made at the time the enhancement (whether transferable or nontransferable) becomes available to the fund. The amount of the contribution is measured by the cost of obtaining a similar enhancement in an arm's-length transaction. Any change in the value of the enhancement would be recorded as unrealized appreciation or depreciation. There would be no adjustment to contributed capital as a result of a change in value of the enhancement or the disposition of that enhancement.</p>
¹ See letter to Chief Financial Officers from Lawrence A. Friend dated November 1, 1994 (IM-DCFO 1994-01).		
1995-06 Transactions with Affiliates in a Master/Feeder Structure	Dear CFO (11/02/1995)	<p>In a letter addressed to Chief Financial Officers dated November 1, 1994, the Division expressed the position that funds that are compensated by affiliates for losses on certain of their investment holdings should account for such transactions as contributions to capital (IM-DCFO 1994-01). The staff has subsequently become aware of instances when the master fund in a "master/feeder" structure received a capital contribution, but the effect of the transaction was not disclosed at the feeder level. Although a feeder fund includes the financial statements of its master fund in its annual and semi-annual reports to shareholders, the feeder fund's financial statements should also reflect these capital contributions.</p> <p>If the master fund is organized as a partnership, U.S. GAAP requires the financial statements of the feeder to reflect its pro rata portion of every master fund transaction. Income received by the master fund partnership is considered to be received, pro rata, by the feeder fund contemporaneously with the receipt by the master fund. The distribution policy of the master fund does not dictate the feeder fund's accounting for income. The feeder fund's financial statements should contain the same presentation and disclosure suggested by IM-DCFO 1994-01 with respect to the feeder funds pro rata benefit received from the master fund's receipt of a capital contribution.</p> <p>If the master fund is organized as a corporation, classification of the master fund's income in the feeder fund's financial statements depends upon the distribution policies of the master fund. Until it is distributed, income received by the master fund is recorded by a feeder fund as unrealized appreciation. When distributions are made by the master fund, it must differentiate distributions from capital gains and other sources from distributions of net investment income. The master fund's determination of the source of its distributions dictates the accounting by the feeder. A capital contribution to a master fund corporation will not be automatically recorded by a feeder fund as such. Rather, as noted above, the feeder fund will account for it as it would any other increase in the master fund's overall net asset value. Notes to the feeder fund's financial statements should refer to the circumstances surrounding the capital contributions received by the master fund either specifically or by cross-reference to the corresponding note to the financial statements of the master fund and should indicate the feeder fund's benefit received.</p>

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<p>1995-07</p> <p>Accounting for Organization and Other Deferred Costs</p>	<p>Dear CFO (11/02/1995)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>In a letter dated May 9, 1995, the Division stated that the Investment Company Act of 1940 (the "1940 Act") does not prohibit unit investment trusts ("UITs") from bearing certain organizational and offering expenses.¹ Since then, the Division has received a number of questions regarding the accounting for such expenses and the appropriate period of amortization.</p> <p>In accordance with GAAP, costs qualifying as organization expenses should be amortized over the period of benefit, not to exceed sixty months. Organization expenses generally consist of expenses incurred to establish a company and legally equip it to engage in business.² Such costs may be deferred and amortized by all registered investment companies. For accounting purposes, offering costs, including the costs of registering securities with the Commission and the states, do not qualify as organization costs and, accordingly, require different accounting treatment. Offering costs are distinguishable from organization expenses because they represent costs associated with the sale of a fund's securities. Open-end funds may defer charging offering costs to expense for a period not to exceed one year. Closed-end funds and UITs should charge offering costs to paid-in-capital. In accordance with industry practice, closed-end funds and UITs may capitalize offering costs until the offering period commences. For closed-end funds, the costs should then be charged to paid-in-capital immediately. For UITs, such costs should be charged to paid-in capital no later than the close of the period during which units of the trust are first sold to the public, which generally does not exceed thirty days.</p> <p>Since many UITs have predetermined termination dates, organization expenses should be amortized over the shorter of the life of the trust or sixty months from the date of commencement of operations. UITs with trust indentures that contain provisions for mandatory termination of the trust if assets fall below a specified level should accelerate the amortization of any remaining organization costs when it appears probable that the trust will terminate before the sixty month or shorter period has elapsed. In such instances, the reduction of the amortization period should be considered a change in accounting estimate in accordance with Accounting Principles Board Opinion No. 20 – Accounting Changes ("APB 20").³</p>
<p>¹ Letter to Pierre de St. Phalle, Re: Unit Investment Trust Organizational Expenses, publicly available May 9, 1995. Specifically, the letter addresses whether a UIT can "bear the cost of preparing its registration statement, trust indenture and other documents, registering its securities with the Commission and the states, and the initial audit of the trust." Although these expenses were referred to in the letter as "organizational" expenses, the letter was not intended to address the accounting treatment of these types of expenses.</p> <p>² See paragraph 8.09 of the Audit and Accounting Guide – Audits of Investment Companies, issued by the American Institute of Certified Public Accountants, with conforming changes as of May 1, 1994.</p> <p>³ Issued by the American Institute of Certified Public Accountants, July 1971.</p>		

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<p>1995-08</p> <p>Financial Statements of Depositors Required by Forms N-8B-2 and S-6</p>	<p>Dear CFO (11/02/1995)</p>	<p>In many cases, the financial statements of the depositor may not be critical to evaluating and understanding a UIT offering. As a result, the staff has not objected if, under certain circumstances, a registrant omits the depositor financial statements required by Item 59 of Form N-8B-2 and Instruction 1(c) (as to the prospectus) of Form S-6.</p> <p>Registrants have requested clarification of the circumstances under which the financial statements of the depositor may be omitted from Form N-8B-2 and Form S-6. In addition, registrants that include financial statements have asked whether they are required to be audited.</p> <p>Registrants using Forms N-8B-2 or S-6 generally may omit depositor financial statements unless the depositor meets any of the following conditions:</p> <ul style="list-style-type: none"> • The depositor has liabilities pursuant to Section 27 of the 1940 Act (associated with a periodic payment plan). Periodic payment plan certificates and some insurance products are subject to refund requirements under Section 27. The depositor's financial statements are important in determining the ability of the depositor to refund the required amounts. • The depositor is considered the issuer of the securities whose reserves will be relied upon to ensure payments. Insurance companies issuing variable products charge fees for mortality and expense risks which, in part, are credited to reserves required by state insurance statutes. The financial statements reflect the size of the reserves available to cover these and other risks. • The depositor has a legal obligation to maintain a secondary market for the securities. To prevent trusts from diminishing in size during a specified period, some depositors agree to maintain a secondary market for the orderly transfer of ownership of trust units.¹ The ability of the depositor to continue to maintain that market is reflected in its financial statements. • The depositor must continuously function as the issuer because of the nature of the offering. For example, equity ownership units in some trusts have been sold with the ability to split the units into separate financial instruments. The separate instruments are separately traded and have differing market values attributable to their unique economic characteristics based on their differing demands on the assets of the issuer. Trading of the separate instruments usually requires the depositor's continuation in business. In addition, the depositor must remain continuously involved when additional equity ownership units are issued or the separate instruments are reconstituted for the purpose of a redemption. <p>If the depositor meets any of the above conditions so that financial statements are required, the following procedures should be noted:</p> <p>Form N-8B-2, the 1940 Act registration form used by UITs that are currently issuing securities, requires audited financial statements of the depositor. The financial statements must include a balance sheet, statement of income (profit and loss) and a statement of surplus for the depositor's most recently completed fiscal year² as of the date of filing.</p> <p>Form S-6 is used to register under the Securities Act of 1933 securities of UITs registered on Form N-8B-2 and also requires financial statements of the depositor. The form requires the financial statements to contain a balance sheet as of a date within ninety days of the date of the filing. This requirement is modified by Rule 3-01(a) of S-X [17 CFR § 210.3-01(a)] which permits the balance sheet to be as of a date within 135 days of the date of filing. The Commission, therefore, will accept balance sheets as of a date within 135 days of the date of filing. If the balance sheet is unaudited, an audited balance sheet as of a date within one year of the date of the filing must also be provided. The financial statements must also include an income (profit and loss) statement for the most recently completed fiscal year and for any subsequent period up through the date of the latest balance sheet provided. The income statements must be audited through the date of the latest audited balance sheet.³</p> <p>When financial statements are required in accordance with the policy set forth above, the Office of the Chief Accountant of the Division will still consider informal written requests for omission or substitution of financial statements pursuant to Rule 3-13 of S-X [17 CFR § 210.3-13].</p>

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<p>¹ More often, the depositor agrees only to attempt to maintain such a market but makes no legal commitment. This is not considered a legal obligation to maintain a secondary market.</p> <p>² The financial statements of the depositor are required to be prepared in accordance with Regulation S-X (“S-X”). Rule 3-02 of S-X [17 CFR §210.3-02] requires a statement of cash flows to be filed as part of the financial statements.</p> <p>³ <u>Id.</u> The statement of cash flows must also be audited through the date of the latest audited balance sheet.</p>		

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<p>1995-09</p> <p>Financial Statement Presentation of Fee Waivers and Recapture</p>	<p>Dear CFO (11/02/1995)</p> <p>Modified</p> <p>Dear CFO (11/22/2019)</p>	<p>There are specific requirements to present and disclose fee waivers and their recapture in a fund's statement of operations and fee table.</p> <p>U.S. GAAP via FASB ASC 946-20-50-7 and Regulation S-X Rule 6-07(2)(a) and (c) are aligned in requiring that voluntary and involuntary waivers be stated separately in the statement of operations. Regulation S-X Rule 6-07(2)(a) and (c) specifically requires fee reductions or reimbursements by any entity to be shown separately in the statement of operations as a reduction of total expenses and requires a note to the financial statements to include the amounts and a description of such arrangement. It makes no distinction between voluntary and involuntary waivers. U.S. GAAP specifically requires this same presentation for both voluntary and involuntary fee waivers. In addition, U.S. GAAP requires that the impact of voluntary waivers on the expense ratio be disclosed separately. When there is an apparent conflict between Regulation S-X and U.S. GAAP, registrants are required to comply with the requirements of Regulation S-X in filings with the Commission; however, the Staff believes the U.S. GAAP requirement on this topic is incremental and not in conflict.</p> <p>Excess expense recapture plans permit advisers or other sponsoring entities to recapture fees waived or expenses reimbursed under an expense limitation plan, subject to certain conditions. The excess expense recapture plans allow for an adviser to collect the differential between actual expenses and the expense limitation, only if actual expenses are lower than the expense limitation, for a period of time subsequent to the waiver or reimbursement.¹</p> <p>The Staff has generally not objected to an accounting analysis that concludes that the recapture of waived fees or reimbursements does not meet the criteria for recording a liability under FASB ASC 450-20-25-2 if there is no evidence that recapture of waived or reimbursed amounts is probable and the period of recapture is limited to a sufficiently short period of time, which the Staff generally believes is three years or less from the date of the waiver or reimbursement.² However, registrants often do not record a liability based solely on the recapture period. We believe funds must also evaluate the probability of the adviser's ability to recover waived or reimbursed amounts during the limited recapture period. We remind registrants that this evaluation should be updated if relevant facts and circumstances change through the duration of the excess expense recapture plan.</p> <p>At times, funds may increase their previously defined expense limitation thresholds. The Staff does not believe it is appropriate to recapture expenses above the expense limitation threshold under which the expenses were originally waived.</p> <p>When funds pay back any previously waived expenses, the Staff believes that the recaptured fees should be presented on a separate line item in the fee table within registration statements or other applicable filings or include the amount recaptured within an "Other Expense" line item.³</p> <p>The discussion above only addresses the disclosure of such waivers and recaptures in the fund's statement of operations and fee table. Registrants are cautioned that the existence of such agreements, the terms of such agreements, and the fund and the adviser's compliance with the terms of such agreements may raise additional issues under the Federal securities laws, and will be closely scrutinized by the Staff.</p>
<p>¹ See Chapter 8 of the AICPA Audit and Accounting Guide ("Audit Guide"), (paragraph 8.09 of the July 1, 2019 version) which states "According to FASB ASC 946-20-25-4, a liability for such excess expenses should be recognized if, and to the extent that, the expense limitation agreement's established terms for repayment of the excess expenses to the adviser by the fund and the attendant circumstances meet criteria (a) (b), and (c) of paragraph 36 of FASB Concepts Statement No. 6, <i>Elements of Financial Statements—a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)</i>, and the criteria in FASB ASC 450-20-25-2. In most instances, a liability will not be recorded because it is not likely that excess expenses under such plans will meet the criteria in those paragraphs before amounts are actually due to the adviser under the reimbursement agreement."</p> <p>² See FASB ASC 450-20-25-2.</p> <p>"An estimated loss from a loss contingency shall be accrued by a charge to income if both of the following conditions are met:</p> <p>a. Information available before the financial statements are issued or are available to be issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. Date of the financial statements means the end of the most recent accounting period for which financial statements are being presented. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss.</p> <p>b. The amount of loss can be reasonably estimated."</p> <p>³ See Accounting and Disclosure Information ("ADI") 2019-09 – Performance and Fee Issues.</p>		

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<p>1995-10</p> <p>Compliance with Rule 18f-3</p>	<p>Dear CFO (11/02/1995)</p>	<p>Rule 18f-3 [17 CFR § 270.18f-3] - <i>Exemption for Open-End Management Investment Companies Issuing Multiple Classes of Shares; Disclosure by Multiple Class and Master-Feeder Funds; Class Voting on Distribution Plans</i> was adopted on February 23, 1995.¹ The rule, among other things, prescribes how income and expenses must be allocated among classes. The allocation methods selected by the fund, however, must be applied consistently from period to period. Paragraph (c)(2) of the rule allows income, realized and unrealized capital gains and losses, and expenses not otherwise allocated to a particular class to be allocated on a settled share basis (as defined in the rule) for companies operating under Rule 2a-7 of the 1940 Act and for companies declaring distributions of net investment income daily, provided those companies maintain the same net asset value per share for each class.</p> <p>Some registrants have interpreted the rule to require funds electing to use the settled share method to apply consistently such method to all components of operations (including realized and unrealized gains and losses). We believe use of the same method to allocate all components of operations may result in a divergence of net asset value among classes when certain levels of subscriptions are received by a fund. The staff, therefore, will not object if funds relying on Rule 18f-3 consistently use a dual allocation method where such method would reduce the likelihood of net asset values diverging among classes. The dual allocation method would permit the use of the relative net assets method for allocating realized and unrealized gains and losses and the settled share method for allocating investment income and expenses.</p>
<p>¹ Investment Company Act Release No. 20915 (February 23, 1995) [60 FR 11876 (March 2, 1995)].</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1995-11</p> <p>Pro Forma Financial Information for Business Combinations</p>	<p>Dear CFO (11/02/1995)</p>	<p>Form N-14, the registration statement used to register securities to be issued in a business combination, requires pro forma financial statements to be included if the transaction meets the criteria set forth in Item 14.2 of the form. Recently, the Division did not object to the exclusion of certain financial information by registrants when the registration statements filed on Form N-14 solicited approval of the shareholders of two or more funds for proposals whereby the funds to be acquired (the “target funds”) were to be combined with and into another fund (the “acquiring fund”) .¹</p> <p>The transactions typically are structured so the combination will include any and all funds that obtain shareholder approval; however, approval by every target fund is not necessary for the merger to take place. As a result, multiple pro forma presentation alternatives are required, depending on the number of target funds.</p> <p>Article 11 of S-X governs the form and content of pro forma financial statements. Rule 11-02(b)(8) of S-X [17 CFR §210.11-02(b)(8)] states "if the transaction is structured in such a manner that significantly different results may occur, additional pro forma presentations shall be made which give effect to the range of possible results." A strict interpretation of this requirement would produce full pro forma financial statements for each possible combination.</p> <p>The staff believes that including full pro forma financial statements for each potential combination could be burdensome to the registrant and confusing to shareholders. In situations where the acquiring fund will combine with only target funds that receive shareholder approval, the staff will not object if, in lieu of providing pro forma financial statements for all possible combinations of the eventual combined entity, registrants provide the following:</p> <ul style="list-style-type: none"> • pro forma combining financial statements reflecting the combination of all funds that are involved in the proposed combinations, prepared in accordance with the requirements of Rule 11-02 (b) and (c) of S-X [17 CFR §210.11-02(b) and (c)] based on the assumption that the shareholders of all target funds will approve the transaction; and • a schedule reflecting pro forma combined expense ratios and total returns for every possible combination involving the target funds and the acquiring fund. The schedule should present the information for all periods covered by the pro forma financial statements referred to above and for each of the two fiscal years prior to the earliest pro forma financial statements presented. Appropriate adjustments should be made where funds have different fiscal years, different dividend payout rates, or other relevant differences in order to provide a consistent presentation based on the actual results of the accounting survivor in each scenario. The expense ratio should be calculated in the manner set forth in Item 3 of Form N-1A, and total return should be calculated in the manner set forth in Item 26 of Form N-1A. In addition, a headnote to the schedule should explain the reason for presentation of the abbreviated pro forma information and briefly describe, if relevant, any assumptions that were made to conform the information of the various target funds to that of the acquiring fund.
<p>¹ E.g., Jaffray Funds, Inc., Form N-14 (File No. 33-58849). The pro forma combined schedule of total returns and expense ratios provided in this filing contained information for four years prior to the period covered by the pro forma combining financial statements, which exceeded the current requirement to provide the information for two prior years, as noted below.</p>		
<p>1995-12</p> <p>Correction of Errors</p>	<p>Dear CFO (11/02/1995)</p>	<p>Certain funds are not immediately recording the correction of errors in their books and records. In cases where the correction would have an immediate effect on net asset value, some funds have capitalized the loss and amortized it over some arbitrary period. ASC Topic 250 prescribes the accounting treatment for adjustments resulting from the correction of errors. In pertinent part, ASC Topic 250 requires the correction of errors to be recorded when identified. The staff believes that immediate recognition of the entire amount of the error should be reflected in the statement of operations and, if appropriate, the footnotes, regardless of the effect on net asset value. Capitalization and subsequent amortization of error amounts are not acceptable under U.S. GAAP.</p>

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1996-01</p> <p>Undertaking to File Financial Statements</p>	<p>Dear CFO (11/01/1996)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>Item 32(b) of Form N-1A requires a registrant to undertake to file a post-effective amendment within the four to six month period after the effective date of its registration. The purpose of the undertaking is to provide financial statements of the registrant reflecting an initial period of operations that is considered representative of the operations of the new registrant.¹</p> <p>Recently, the Division addressed the need for this undertaking in the case of a merger of an operating investment company into a non-operating registrant, that is, a "shell" entity. The operating investment company was to be the accounting survivor; therefore, its financial statements became those of the continuing new registrant. We agreed that the registration statement containing the financial statements of the operating company need not include the four to six month period undertaking pursuant to Item 32(b). This position was based on our view that the financial statements of the new registrant were those of the pre-merger operating investment company and were considered representative of the operations of the new registrant. In other merger situations, when the operating investment company is a relatively new registrant (i.e., having fewer than four to six months of operations), undertaking to file financial statements within four to six months following the merger is not necessary if the financial statements included in the initial registration statement of the new registrant are considered representative of its operations.</p>
<p>¹ The Division has previously provided limited relief from this requirement. See Letter to Registrants from Carolyn B. Lewis dated February 24, 1994, Item V, "<i>Financial Statements</i>" (limited relief granted when the initiation of operations is deferred and the end of the four to six month period is near the date of the end of the annual or semi-annual period).</p>		
<p>1996-02</p> <p>Accounting for Foreign Corporate Actions</p>	<p>Dear CFO (11/01/1996)</p>	<p>In recent years, the number of investment companies investing in foreign securities has increased dramatically.¹ In many cases, information relating to corporate actions (e.g., dividends, stock splits, rights offerings, interest payments) by foreign issuers is difficult for investment companies or their agents to obtain and verify on a timely basis. U.S. GAAP requires an investment company to record corporate actions affecting portfolio securities on the dates when they become effective² (e.g., ex-dividend date, payment date) in order for the investment company's net asset value to be correctly stated.</p> <p>The Division understands that some investment companies do not record foreign corporate actions until they receive formal notification from a third party such as the investment company's custodian or other service provider and are able to verify that the corporate action has occurred. Generally it is not appropriate under applicable accounting rules for an investment company to delay the recording of foreign corporate actions if the investment company knew or, in the exercise of reasonable diligence, should have known that the corporate action had occurred. Delayed recording of foreign corporate actions may be appropriate, however, if the investment company, exercising reasonable diligence, did not know that the corporate action had occurred.³ In this event, the investment company should record such action promptly after receipt of the information. Reasonable diligence would generally require an investment company to adopt appropriate procedures to obtain timely notification and verification of the effective date of the foreign corporate action.⁴</p>
<p>¹ The number of registered investment companies with international portfolios has more than doubled over the past four years. Investment Company Institute, "<i>Trends in Mutual Fund Activity</i>," Table 6.A, July, 1996.</p> <p>² FASB Statement of Concepts No. 5, "<i>Recognition and Measurement in Financial Statements of Business Enterprises</i>," December, 1984.</p> <p>³ In addition, an investment company may have conflicting information about the date of a corporate action which it is unable to confirm with reasonable diligence.</p> <p>⁴ In some cases, failure to record a foreign corporate action on a timely basis will cause an investment company later to adjust its financial statements. Accounting for a correction of a material error is discussed in the Division's letter to Chief Financial Officers dated November 2, 1995 (IM-DCFO 1995-12), in which we concluded that immediate recognition of the entire amount of any error should be reflected in the statement of operations and, if appropriate, the footnotes, regardless of the effect on net asset value.</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1996-03</p> <p>Financial Highlights in Multi-Class Reorganizations</p>	<p>Dear CFO (11/01/1996)</p>	<p>In the past, we have addressed the issue of determining which investment company in a business combination is deemed the survivor and which historical financial highlights are used by the new surviving investment company.¹ Several registrants have inquired about accounting for a multi-class reorganization in which several investment companies merge into one fund, and, contemporaneously, the acquiring fund implements a multi-class structure. Each of the predecessor funds becomes a different class of the acquiring successor fund. Only the successor class (i.e., the existing fund) represents the continuing entity whose operating history is reflected in the historical financial highlights. The financial highlights of the other predecessors (classes) are not carried forward, and each new class generates an operating history on a post-reorganization basis.²</p>
<p>¹ North American Security Trust (pub. avail. August 5, 1994) (“NAST Letter”).</p>		
<p>² Operating history contained in the financial highlights is different from historical performance which may contain information prior to reorganization. (See, e.g., NAST Letter; IDS Financial Corp. (pub. avail. December 19, 1994.))</p>		
<p>1996-04</p> <p>Accounting for Liquidation Expenses</p>	<p>Dear CFO (11/01/1996)</p>	<p>Several investment company registrants have inquired as to the proper treatment of expenses in connection with a liquidation. In some cases, the estimation of expenses and the approval of the plan of liquidation may not occur at the same time. We believe that it is prudent to record the liquidation expenses promptly to ensure that investors who remain shareholders of the liquidating company do not pay a disproportionate share of the liquidation expenses. U.S. GAAP require liabilities to be recorded when it is probable that a liability has been incurred and the amount can be estimated.¹ We believe the liquidation expenses should be reflected on the books and records of the registrant as soon as determinable under U.S. GAAP.²</p>
<p>¹ Statement of FASB ASC Topic 450, <i>Contingencies</i>.</p>		
<p>1996-05</p> <p>Accounting Treatment for Indirect Expenses</p>	<p>Dear CFO (11/01/1996)</p>	<p>The Division recently reviewed a filing of a closed-end investment company organized as a term trust (the “Trust”) that raised issues regarding the accounting treatment for indirect expenses. The Trust's assets consisted of government securities and a forward purchase contract between the Trust and an independent third party (the “seller”) who owned common stock of an unaffiliated company. The forward purchase contract provided that each of the Trust's unitholders would receive a certain number of shares of common stock of the unaffiliated company at the expiration of the Trust. The seller agreed to pay all underwriting, organizational and ongoing operational expenses of the Trust either directly or indirectly through the underwriter.</p> <p>In the initial registration filing, the Trust included a table pursuant to Item 3 of Form N-2 (Fee Table and Synopsis) that presented its total annual expenses as zero because the seller had agreed to pay these Trust expenses. We concluded that the presentation of zero expenses was not appropriate because the cost of the forward purchase contract included these expenses. Further, we concluded that the Trust should record these costs as an expense or prepaid asset with a corresponding reduction to the cost of the contract purchased. The prepaid asset is to be reduced ratably over the life of the Trust by a charge to Trust expenses. Under the circumstances, these charges, whether paid directly or indirectly by the Trust, were included as part of the Trust's total annual expenses in the table required by Item 3 of Form N-2.</p>

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1996-06</p> <p>Average Commission Rate Considerations</p>	<p>Dear CFO (11/1/1996)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>In July 1995, the Commission revised certain line items in the financial highlights table in Forms N-1A, N-2 and N-3, including the "average commission rate paid" (the "ACRP").¹ Since that time, the Division has responded to a number of questions regarding an ACRP that includes both domestic and foreign commission rates. According to registrants, blending both commission rates presents a concern because of the significant difference between the dollar amount of commissions paid for domestic securities and the dollar amount (after translation) of commissions paid for foreign securities.</p> <p>In adopting revisions to the financial highlights table, the Commission considered the effects of requiring a blended commission rate and indicated that such a rate is appropriate. In particular, the Commission stated that "disclosure of average commission rates [in a blended manner] can improve investors' ability to evaluate and compare investment company brokerage costs . . . and that a comparison of average commission rates among investment companies will be a useful bench-mark for investors" ² An average commission rate should be based on actual commissions paid, translated into U.S. dollar equivalents, as required by the instruction to the financial highlights table.³ The registrant may, at its option, add an explanatory note to the financial highlights table with respect to the components of the ACRP including domestic, foreign or country-specific average commission rates.</p>
<p>¹ Investment Company Act Release No. IC-21221 (July 28, 1995).</p> <p>² <i>Id.</i>, Item II.E.</p> <p>³ An instruction to the item provides that the registrant should "[c]onvert commissions paid in foreign currency into U.S. dollars and cents per share using consistently either the prevailing exchange rate on the date of the transaction or average exchange rate over such period as related transactions took place."</p>		
<p>1996-07</p> <p>Dating of Financial Statements</p>	<p>Dear CFO (11/01/1996)</p>	<p>The Division has addressed questions regarding the proper dating of financial statements when the reporting period ends on a non-business day.¹ When the reporting period ends on a weekend, the investment company has the option to choose either the calendar day or the last business day as the date of the balance sheet. If the investment company chooses to use the last business day, the financial statements should reflect that date and include the appropriate accruals to that date. If the investment company chooses to define the fiscal period based on the calendar date, the financial statements should reflect the calendar date and include the appropriate accruals to the calendar date.</p>
<p>¹ For example, the calendar end may be a Sunday, but the last business day would be the preceding Friday.</p>		
<p>1997-01</p> <p>Foreign Pricing Considerations</p>	<p>Dear CFO (11/07/1997)</p>	<p>In its letter dated November 1, 1996,¹ the staff discussed certain accounting-related matters involving a fund's ability to obtain and verify foreign corporate actions. In particular, the staff focused on the situation in which management of a fund uses reasonable diligence to attempt to obtain timely notification and verification of the effective date of foreign corporate actions but delayed the recording of the foreign corporate actions until third party confirmation. Such a procedure is commonly referred to as reflecting a "reasonable diligence standard."</p> <p>Since the letter's issuance, registrants have asked whether a reasonable diligence standard could extend to the pricing of foreign securities. Although the staff recognizes that accounting for both corporate actions and pricing of securities is often intertwined, we do not believe the same standard applies. As noted in a previous letter,² the Commission's Accounting Series Releases 113 and 118 are the accounting standards that govern the valuation and accounting for investments.³</p>
<p>¹ See Letter to Chief Financial Officers from Lawrence A. Friend, dated November 1, 1996 (IM-DCFO 1996-02), "Accounting for Foreign Corporate Actions".</p> <p>² See Letter to Chief Financial Officers from Lawrence A. Friend, dated November 1, 1994 (IM-DCFO 1994-02), "Valuation of Certain Portfolio Investments".</p> <p>³ Accounting Series Release 113, (October 21, 1969); Accounting Series Release 118, (December 23, 1970). These releases have been codified in Sections 404.04 and 404.03 respectively, in the Codification of Financial Reporting Policies.</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1997-02</p> <p>Fund of Funds Considerations</p>	<p>Dear CFO (11/07/1997)</p> <p>Modified</p> <p>Dear CFO (11/22/2019)</p>	<p>Some fund of funds arrangements¹ exist, in which one fund (“top tier fund”) invests its assets in shares of another fund (“underlying fund”) rather than directly in securities and where the top tier fund has invested a significant amount of its investments in an underlying fund. The degree of investment raises financial reporting concerns for these top tier funds. Top tier funds, like all other funds, report each investment separately on their financial statements.² When a top tier fund has a significant amount of its portfolio invested in a single underlying fund or owns a controlling interest in an underlying fund, registrants should consider providing additional financial information to shareholders.</p> <p>For example, if the top tier fund has a significant portion of its portfolio invested in an underlying fund, the top tier fund should consider accompanying its financial statements with those of the underlying fund. Additionally, if a top tier fund owns a controlling interest in an underlying fund, current accounting literature may require consolidating the financial statements of an underlying fund and the top tier fund.³</p> <p>In addition, if a fund of funds’ has a significant non-consolidated investment in an underlying fund, the Staff may request that the financial statements of the top-tier fund contain instructions for accessing the shareholder reports of the significant investment.⁴ For additional information, refer to published Staff position in IM Guidance Update No. 2014-11 <i>Guidance Regarding Investment Company Consolidation</i>.</p>
<p>¹ Fund of funds arrangements are subject to the provisions of Section 12 of the 1940 Act.</p> <p>² See Regulation S-X, Articles 6-04, 6-10, 12-12, and 12-14 [17 CFR 210.6-04, 6-10, 12-12, and 12-14].</p> <p>³ FASB ASC Topic 810, <i>Consolidation</i> (“ASC Topic 810”). ASC Topic 810 requires consolidation of all majority-owned subsidiaries unless control is temporary or does not rest with the majority owner. Control is defined as ownership of over 50% of the outstanding voting shares of another company. While a fund of funds arrangement differs from an operating company envisioned by the current accounting literature, ASC Topic 810 suggests that consolidation may be appropriate.</p> <p>⁴ See generally FASB ASC 946-210-45-7</p>		
<p>1997-03</p> <p>Designation of Segregated Assets</p>	<p>Dear CFO (11/07/1997)</p>	<p>Certain trading practices undertaken by registrants may involve the issuance of senior securities subject to the prohibitions and asset coverage requirements of Section 18 of the 1940 Act.¹ In 1979, the Commission issued a General Statement of Policy² indicating the staff's view that certain instruments held by a fund would not be deemed subject to Section 18 if the fund's obligation, with respect to any such instrument, was “covered” by assets established and maintained by the fund in a segregated account.</p> <p>Release 10666 further stated that the board of directors of a fund that is engaged in the specified trading practices should review the fund's portfolio and custodial accounts to determine if the fund has created or should create any segregated accounts with the company's custodian. Although Release 10666 includes a section on valuation and accounting, it does not discuss internal accounting control and reporting issues related to the segregated accounts.</p> <p>Typically, investment companies have designated securities to be segregated on the records of their custodians. The staff has been asked by registrants whether it would be consistent to segregate accounts on the fund's records. The staff has indicated that it would not object if assets segregated under Section 18 were designated solely on the fund's records and not designated on the fund's custodian's records.³</p>
<p>¹ 15 U.S.C 80a-18</p> <p>² Investment Company Act Release No. 10666. April 18, 1979 (“Release 10666”).</p> <p>³ To the extent that a fund designates segregated assets solely on its records, the fund may need to implement additional procedures and controls to ensure that segregation is undertaken in accordance with the interpretation outlined in Release 10666.</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1997-04</p> <p>Accounting for Securities Lending Transactions</p>	<p>Dear CFO (11/07/1997)</p>	<p>In a typical fund securities lending transaction, the fund lends its securities to a borrower which pledges cash or securities as collateral for the securities on loan. U.S. GAAP for securities lending transactions is governed by FASB ASC 860, <i>Transfers and Servicing</i> (“ASC Topic 860”).¹ ASC Topic 860 focuses on “effective control”¹ as a key component for determining the accounting treatment for securities on loan and the corresponding collateral exchanged between the lending fund and borrower.</p> <p>When a lending fund receives securities as collateral and does not have effective control over the securities, it should not record the securities as its asset. Conversely, when a fund receives securities as collateral and has effective control over the securities, it should record the securities as its asset with a corresponding liability for repayment. When a fund receives cash as collateral, it is deemed to have effective control of the collateral and should record the cash as its asset with a corresponding liability for repayment.²</p> <p>We have noted inconsistent accounting by some funds that automatically reinvest cash collateral in securities. These funds are "looking through" to the securities purchased with the cash collateral and treating the securities received as collateral without effective control. Therefore, the funds do not record them as assets. The staff believes, consistent with ASC Topic 860, that a fund has effective control over cash collateral and also has effective control over any securities purchased with the cash collateral. As a result, a fund should record these securities as its asset and a corresponding liability for repayment, in the amount of the cash collateral received, in its financial statements.³</p>
<p>¹ See FASB ASC 860-10-40-5 which defines the three conditions under which the transferor has surrendered control over transferred assets, <u>all</u> of which must be met.</p> <p>² See FASB ASC 860-30-25-3 “... all cash collateral should be recorded as an asset by the party receiving it (the secured party), together with a liability for the obligation to return it to the payer (obligor), whose asset is a receivable.” Further, the lending fund remains liable for returning the amount of cash collateral, and incurs the risk of loss from any securities purchased with the cash collateral.</p> <p>³ The Staff noted in Norwest Bank Minnesota N.A., SEC No-Action Letter (pub avail. May 25, 1995) that cash collateral should be invested in accordance with the fund’s investment policies. Because the fund invests the cash collateral in securities consistent with its policies, the fund exercises control over the cash collateral and the securities purchased with that cash. As fund assets, the securities purchased with the cash collateral are subject to the fund’s usual valuation procedures.</p>		
<p>1997-05</p> <p>Closed-End Fund Expense Ratios - Interest Expense</p>	<p>Dear CFO (11/07/1997)</p>	<p>In reviewing the financial statements of closed-end funds, we have noted inconsistencies in how they have calculated their expense ratios¹ when they incurred interest expense on debt securities or paid dividends on preferred shares.</p> <p>Interest Expense</p> <p>Item 4 of Form N-2, Financial Highlights, requires expense ratios to include all expenses of the fund. The instructions to Form N-2 make no exception for any expense item; all expenses, including interest expense, should be included in the fund's calculation of its expense ratio.²</p> <p>We have been asked by registrants and their independent accountants whether more than one expense ratio may be shown as a part of the financial highlights table. For example, some funds believe a more meaningful ratio would be based on expenses that do not include interest (“net expenses”). The staff has not objected to a second ratio that excludes interest in certain circumstances.³ In all cases, the expense ratio that includes interest expense (“gross expenses”) should be shown in the body of the financial highlights. The staff would not object if both the net and gross expense ratios are shown in the body of the financial highlights table or if the expense ratio, without the interest expense, is reflected in a footnote to the financial highlights table. Both ratios should be clearly identified with appropriate disclosure about the differences.</p>
<p>¹ See Form N-2, Item 4.1, line i.</p> <p>² In proposing Form N-2, the Commission stated that “interest payments on long-term debt, which may be part of the capitalization of a closed-end fund, would be included among the annual shareholder expenses.” (Release No. IC-17091, July 28, 1989, footnote 38).</p> <p>³ This position reflects an application of a general principle stated in the instructions to Form N-2. General Instruction (2) to the form states: “The prospectus or the SAI may contain more information than called for by this form, provided the information is not incomplete, inaccurate, or misleading and does not, because of its nature, quantity, or manner of presentation, obscure or impede understanding of required information.”</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1997-06</p> <p>Closed-End Fund Expense Ratios - Dividend Payments</p>	<p>Dear CFO (11/07/1997)</p> <p>Modified</p> <p>Dear CFO (11/22/2019)</p>	<p>U.S. GAAP defines preferred stock as a security that has preferential rights compared to common stock.¹ Dividend payments to preferred stockholders are not considered to be an expense of the fund and, in the Staff's view, should not be included as expenses in the financial statements.² Instruction 15 to Item 4, Financial Highlights, of Form N-2 requires a fund to "indicate in a note that the expense ratio and net investment income ratio do not reflect the effect of dividend payments to preferred shareholders." Also, Instruction 9 to Item 3, Fee Table and Synopsis, of Form N-2 states that other expenses includes all expenses that will be reflected as expenses in the registrant's statement of operations.</p> <p>Because U.S. GAAP does not permit dividends to be included as expenses in a statement of operations, the Staff's position is that dividends would not be included as an expense in Item 4 of Form N-2. However, dividend payments to preferred stockholders should be included as an expense in Item 3 of Form N-2 as this is considered a cost that directly or indirectly affects the net assets attributable to common stockholders. This is similar to the concept in U.S. GAAP related to the computation of basic EPS on dividends from preferred share classes in that income available to common shareholders shall be computed by deducting dividends declared on preferred stock from net income.³</p> <p>In view of the reporting differences, the Staff takes the position that it would not object to additional ratios reflecting the treatment of the preferred shares in the financial highlights. The Staff believes the additional ratios should not be included on the face of the financial highlights table; rather, they should be included in the footnotes to that table.</p>
<p>¹ See FASB ASC 505-10-20.</p> <p>² Distributions to preferred and common stockholders are required to be shown broad in Form N-2, Item 4.1</p> <p>³ See ASC 260-10-45-11</p>		
<p>1997-07</p> <p>Closed-End Fund Expense Ratios - Other Disclosures</p>	<p>Dear CFO (11/07/1997)</p>	<p>Instruction 6 to Item 3 of Form N-2 prescribes "other expenses [to] be stated as a percentage of net asset value attributable to common shares." Although this instruction is to Item 3 and is not repeated as an instruction to Item 4, the staff believes the concept should be consistently applied in both tables. Expense ratios should be presented as a percentage of the net asset value attributable to common shares only.¹ The staff would not object to the inclusion, in the footnotes to the financial highlights table, of additional ratios that are clearly identified and explained.</p> <p>The Division acknowledges that its positions stated above with respect to closed-end funds may result in some funds changing their financial statements. To enable those funds sufficient time to complete these changes, the staff would not object if registrants implement these interpretations for all ratios contained in financial statements for fiscal years that begin after November 15, 1997.</p>
<p>¹ Similarly, the ratio of net investment income to average net assets (Form N-2, Item 4.1, line j) should also be presented as a percentage of the net asset value attributable to common shares only.</p>		

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<p>1997-08</p> <p>Organization Costs Considerations</p>	<p>Dear CFO (11/7/1997)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>The staff continues to address questions from registrants and their independent accountants regarding the accounting treatment for organization costs¹ that arise in connection with a merger, liquidation, or dissolution of a fund.² The staff has indicated that the remaining amount of organization costs, in such a transaction, are the responsibility of the holder of the original shares and should be netted against redemption proceeds of the original shares.³ The staff has indicated that it is not appropriate to accelerate the write-off of the remaining organization costs to the date of the merger, liquidation, or dissolution, or to immediately charge to fund expenses the remaining amount of organization costs.</p>
<p>¹ This item does not address any possible changes to the accounting for and the reporting on organization costs as contemplated in proposed Statement of Position (SOP) "Reporting on Costs of Start-Up Activities," dated April 22, 1997, issued by the American Institute of Certified Public Accountants.</p> <p>² The staff would not object if, in the case of a merger, the organization costs of the acquiring, legal survivor fund are capitalized and amortized. However, remaining organization costs of the target fund should be netted against the redemption proceeds of the original shares.</p> <p>³ See Letter to Registrants from Carolyn B. Lewis, dated January 3, 1991, Item 11.E. "Organization Expenses".</p>		
<p>1998-01</p> <p>Average Commission Rate Disclosure</p>	<p>Dear CFO (12/30/1998)</p> <p>Rescinded</p> <p>Dear CFO (10/23/2020)</p>	<p>In March 1998, the Commission adopted final amendments to Form N-1A.¹ As part of these amendments, the Commission adopted several changes to the financial highlights table. One change is to eliminate disclosure of the average commission rate from the prospectuses of open-end investment companies.² Thus, the average commission rate is no longer required to be included in the financial highlights table in either the prospectuses or shareholder reports of open-end investment companies.</p> <p>Although the amendments to Form N-1A are specific to open-end investment companies, several closed-end investment companies have asked whether the average commission rate must be included in their prospectuses and shareholder reports.³ We believe that the same considerations underlying the elimination of the average commission rate from open-end investment company prospectuses and shareholder reports also apply to closed-end investment companies. As a result, we would not object if closed-end investment companies do not disclose the average commission rate in their prospectuses or shareholder reports.</p>
<p>¹ Form N-1A is used by open-end investment companies to register under the 1940 Act and to register their shares under the Securities Act of 1933. See Investment Company Act Release No. 23064 (Mar. 13, 1998) [55 FR 13916 (Mar. 23, 1998)] (the "Adopting Release").</p> <p>² The Adopting Release noted commenters' concern that the average commission rate was technical information with only marginal benefit for typical investors. The Adopting Release stated, "At this time, the Commission believes there continues to be some merit in ensuring that information about the average commission rate paid by funds is publicly available. The Commission believes however, that a fund's prospectus appears not to be the most appropriate document through which to make this information public." 55 FR at 13936.</p> <p>³ See Item 4 of Form N-2 (Financial Highlights).</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1998-02</p> <p>Organization Costs for Open-end Investment Companies</p>	<p>Dear CFO (12/30/1998)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>In April 1998, the Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" ("SOP 98-5"). SOP 98-5 provides guidance on the financial reporting of start-up costs and organization costs, and in particular requires all start-up costs and organization costs to be expensed as incurred.¹</p> <p>The effect of SOP 98-5 on the investment company industry is that investment companies no longer can capitalize organization costs as an asset and ratably reduce this asset by amortization.² As a result of SOP 98-5, we believe that organization costs will be treated in one of the following manners: (1) as a direct expense to the investment company, (2) as an expense to the investment company and a simultaneous reimbursement by the sponsor, in accordance with a reimbursement or excess expense plan, or (3) as an expense of the investment company sponsor, if it intends to incur organization costs on behalf of the investment company. When organization costs are charged as expenses of the investment company as in scenarios "(1)" or "(2)", the financial statements of the investment company that are part of its registration statement should include a statement of operations because the investment company has operating activity.³</p> <p>We also remind recently formed registrants that SOP 98-5 permits capitalization of organization costs only if the investment company shares are sold to independent third parties prior to June 30, 1998. If the investment company failed to sell shares to independent third parties prior to June 30, 1998, we believe that organization costs should be immediately written off as an expense and/or reimbursed directly by the investment company sponsor.</p>
<p>¹ SOP 98-5 applies to all non-governmental entities and is effective for financial statements for fiscal years beginning after December 15, 1998.</p> <p>² SOP 98-5 made an exception for entities that report substantially all investments at market value or fair value, issue and redeem shares, units, or ownership interests at net asset value, and have sold their shares, units, or ownership interests to independent third parties before June 30, 1998. For these entities, existing organization costs can continue to be amortized in the normal course of business.</p> <p>Further, SOP 98-5 is silent as to offering costs that generally include: (1) legal fees pertaining to the company's shares offered for sale, (2) SEC and state registration fees, (3) underwriting and other similar costs, (4) costs of printing of prospectuses for sale purposes, and (5) initial fees paid to be listed on an exchange. The staff has taken the view that offering costs should be amortized over the shorter of the offering period or one year for open-end investment companies and unit investment trusts and charged to capital for closed-end investment companies at the close of the offering period.</p> <p>³ Consistent with our analysis, a series portfolio that elects to expense the organization costs of the series portfolio is required to prepare a statement of operations and include it as part of the series portfolio's registration statement.</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1998-03</p> <p>Financial Reporting for a Master/Feeder Structure</p>	<p>Dear CFO (12/30/1998)</p>	<p>We continue to receive questions regarding the reporting requirements for complex investment company structures.¹ One such structure is the master/feeder arrangement. Currently, shareholder reports of the feeder contain two sets of financial statements, one for the master and another for the feeder. Section 30 of the Act outlines periodic reporting requirements for registrants. Specifically, Sections 30(e)(1) and (2) require registrants to provide a balance sheet accompanied by a statement of the aggregate value of investments and a list showing the amounts and values of securities owned on the date of the balance sheet.</p> <p>Questions have arisen as to the proper reporting when the master and feeder have different fiscal year-ends. In such circumstances, we would not object if, at each feeder investment company year-end, the audited shareholder report of the feeder is accompanied by the latest audited shareholder report of the master and by an unaudited balance sheet of the master, and schedule of investments of the master as of the date of the feeder financial statements.² We remind registrants that the portfolio turnover rate for the master should be disclosed in the financial highlights table contained in the shareholder report and registration statement of the feeder.³</p>
<p>¹ See Letter from Lawrence A. Friend, Chief Accountant, Division of Investment Management, Securities and Exchange Commission, to Chief Financial Officer (November 7, 1997) discussing “Fund of Funds Considerations” (IM-DCFO 1997-02).</p> <p>² For example, if the feeder has a December 31 fiscal year-end and the master has a September 30 fiscal year-end, the audited December 31 feeder financial statements would be accompanied by the audited September 30 master financial statements, and an unaudited master balance sheet and master schedule of investments as of December 31.</p> <p>³ See Chapter 5 of the AICPA Audit and Accounting Guide for Investment Companies (Paragraph 5.52 of the July 1, 2019 version).</p>		
<p>1998-04</p> <p>Change in Independent Public Accountants</p>	<p>Dear CFO (12/30/1998)</p> <p>Modified</p> <p>Dear CFO (11/22/2019)</p> <p>Modified</p> <p>Dear CFO (10/23/2020)</p>	<p>The Staff is providing clarity about the procedures that investment companies must follow when there is a change in independent registered public accounting firm. Item 304 of Regulation S-K requires registrants to report changes in accountants. Currently, operating companies and BDCs are required to report such a change on Form 8-K,¹ while investment companies are required to report a change in independent public accountant by each of the following form requirements, as applicable: Item B.17.f of Form N-CEN, Item 13(a)(4) of Form N-CSR (filed as an exhibit), Item 27(b)(4) or 27(c)(4) of Form N-1A or Instruction 4.d or 5.d to Item 24 of Form N-2, and Instruction 4(iv) or 5(iv) to Item 28 of Form N-3. Further, Section 1000.08(m) of the SEC Practice Section (as adopted by the PCAOB)² requires certain independent public accountants to notify the Commission’s Office of the Chief Accountant of the cessation of an auditor’s relationship with an audit client unless such cessation of the auditor-client relationship is reported by the registrant in a timely filed Form 8-K.³</p> <p>To satisfy the reporting requirement of Forms N-1A, N-2, N-3, and N-CSR, the Staff prefers that registrants disclose the change in accountants by conforming to the requirements of Item 304 of Regulation S-K⁴ in narrative form in either the notes to the financial statements or other supplemental information contained in the investment company's first shareholder report that is issued subsequent to the Board of Directors’ approval of the change in accountant. Item 304 of Regulation S-K additionally requires the registrant to request the former independent registered public accounting firm to furnish a letter addressed to the Commission indicating whether the former accountant agrees with the statements made by the registrant in response to Item 304(a) and, if not, stating the respects in which it does not agree (“Agreement Letter”). The Agreement Letter may be included as part of the exhibit filed for Item 13(a)(4) of Form N-CSR or a separate exhibit to Form N-CSR.</p> <p>In circumstances, such as a merger, where a registrant creates a new legal entity, such as a shell fund with no operations, that has a different accountant than the acquired entity which is determined to be the accounting survivor, the Staff expects the registrant to include the required change in accountant disclosure in applicable filings and the accountant to report the change to the Commission’s Office of the Chief Accountant in accordance with SEC Practice Section 1000.08(m) as applicable.</p> <p>Section 7(a) of the Securities Act of 1933 requires an accountant’s consent to be included under certain circumstances,⁵ including when that accountant has changed but their audit report is being referenced in a registration statement. For example, a predecessor accountant should provide consent in each filing which contains or incorporates its audit report or contains financial statements audited by the predecessor firm. The Staff generally believes the consent requirement is most important for investment companies for the years for which the traditional components of the financial statements are presented, including the statement of assets and liabilities, including the schedule of investments, statement of operations, statement of changes in net assets, statement of cash flows, if applicable, and the notes to the financial statements. It has been our observation that the practice by registered investment companies has been to include an accountant’s consent in the filing made in the year following the registrant’s change in accountant. The Staff has historically not objected to that practice.</p>

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>¹ See Item 4.01 of Form 8-K.</p> <p>² See PCAOB Rule 3400T, Interim Quality Control Standards.</p> <p>³ See Guidance on the Submission of Notices to the Office of the Chief Accountant at https://www.sec.gov/about/offices/oca/10a1notices.htm.</p> <p>⁴ See Item 304 of Regulation S-K [17 CFR 229.304] (Changes in and Disagreements with Accountants on Accounting and Financial Disclosure).</p> <p>⁵ See section 7(a) of the Securities Act of 1933 (“If any accountant, engineer, or appraiser...is named as having prepared or certified any part of the registration statement, or is named as having prepared or certified a report or valuation for use in connection with the registration statement, the written consent of such person shall be filed with the registration statement.”)</p>		
<p>1998-05</p> <p>Updating Performance Data in the Bar Chart</p>	<p>Dear CFO (12/30/1998)</p>	<p>Several registrants have asked whether an investment company must update the performance information in the bar chart required in the prospectus of an open-end investment company when a calendar year-end or calendar quarter-end passes after the investment company has filed a post-effective amendment to its registration statement but before the effective date. Item 4(b)(2)(ii) of Form N-1A requires an investment company to provide its total returns for each of the last 10 calendar years in a bar chart. The Item also requires an investment company to include year-to-date return information as of the most recent quarter in a footnote to the bar chart, if the investment company's fiscal year-end is other than the calendar year-end. We interpret these requirements to mean that an investment company must disclose return information as of the calendar year-end or calendar quarter-end most recently completed prior to the date the investment company files its post-effective amendment that includes its financial statements.¹</p>
<p>¹ For example, if a fund files a post-effective amendment under rule 485(a) on November 30, then files a post-effective amendment including its financial statements under rule 485(b) on the following January 30, the fund must update its bar chart to include return information for the calendar year which ended between its first filing and its second filing.</p>		
<p>1998-06</p> <p>Directed Brokerage Reporting in Financial Statements</p>	<p>Dear CFO (12/30/1998)</p>	<p>A recent study by the Commission's Office of Compliance Inspections and Examinations reported that many investment companies failed to “gross up” expenses paid for under directed brokerage and certain expense offset arrangements (e.g., compensating balance arrangement).¹ According to the study, some investment companies failed to gross up their expenses because they deemed the amounts not to be material. Rule 6-07 of Regulation S-X requires the grossing up of expenses regardless of materiality.² We would not object, however, if an investment company that has grossed-up its expenses in the statement of operations, omits the expense offset line if the rounded amount is zero. Under these circumstances, the investment company should disclose in a footnote the existence of the arrangements and state the total amount of the expenses that were paid under directed brokerage and expense offset arrangements.</p>
<p>¹ See Office of Compliance Inspections and Examinations, Securities and Exchange Commission, <u>Inspection Report</u> on the Soft Dollar Practices of Broker-Dealers, Investment Advisers and Mutual Funds, (Sept. 22, 1998).</p> <p>² See Rule 6-07 of Regulation S-X [17 CFR 210.6-07] (“Statement of Operations”) and Investment Company Act Release No. 21221 (July 21, 1995) [60 FR 38918 (July 28, 1995)] (Payment for Investment Company Services with Brokerage Commissions).</p>		
<p>1998-07</p> <p>Financial Data Schedules</p>	<p>Dear CFO (12/30/1998)</p>	<p>We no longer require financial data schedules from registrants who file on Form N-4 and Form S-6. Form N-4 and Form S-6 have been removed from the Filer Manual Appendix E list of investment company forms requiring an Article 6 financial data schedule.</p>

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>1999-01</p> <p>Management's Statement Regarding Compliance</p>	<p>Dear CFO (12/30/1999)</p>	<p>Rules under the 1940 Act and the Investment Advisers Act of 1940 require that an independent accountant conduct an examination of the securities held by a regulated entity. Specifically, Rules 17f-1 and 17f-2 under the 1940 Act require an independent accountant to conduct an examination when the securities are maintained in the custody of a member of a national securities exchange, or when the investment company itself maintains custody, respectively. Similarly, Rule 206(4)-2 under the Investment Advisers Act requires an examination when the adviser has custody or possession of client funds or securities. In all three instances, an independent accountant issues a report attesting to management's compliance with these rules, and the independent accountant's report is based upon a statement from management of the adviser or the fund that they have complied with the rules.</p> <p>Our review of filings on Forms N-17f-1, N-17f-2 and ADV-E has revealed that many registrants have not included Management's Statement Regarding Compliance in their filings.¹ To be a complete filing; registrants must attach Management's Statement Regarding Compliance to the Report of Independent Accountants in filings on Forms N-17f-1, N-17f-2, and ADV-E.</p>
<p>¹ Forms N-17f-1, N-17f-2, and ADV-E are the filings required by Rules 17f-1 and 17f-2 under the 1940 Act and Rule 206(4)-2 under the Investment Advisers Act, respectively.</p>		
<p>1999-02</p> <p>Accounting for Reimbursement of Expense Waivers</p>	<p>Dear CFO (12/30/1999)</p>	<p>During examinations of registrants, we have noted receivables from fund advisers, under expense reimbursement plans, which have been outstanding for periods extending beyond one year. These receivables did not have corresponding valuation reserves reducing the outstanding receivable balance for potentially uncollectible amounts. Consistent with generally accepted accounting principles, fund management should consider the collectibility of any receivable from an adviser, particularly in circumstances where the receivable is not fully paid as frequently as the adviser receives payment for services provided under the advisory agreement.¹ In addition, auditors of a fund's financial statements are reminded of the requirement under generally accepted auditing standards to satisfy themselves that receivables from an adviser or third party are properly valued to reflect collectibility concerns.²</p>
<p>¹ We believe that if an adviser redeems its shares in a fund, the redemption proceeds should be reduced by any outstanding receivables due from that adviser at the time of the redemption. <i>See</i> Section 17(a)(3) of the 1940 Act.</p> <p>² When receivables from an adviser or third party are outstanding and possibly uncollectible, a number of other issues arise, including whether the adviser or another affiliated person has violated Section 17(a)(3) of the 1940 Act, and whether the financial condition of the adviser or other service provider should be disclosed in the fund's prospectus. <i>See, e.g., In the Matter of Vector Index Advisors, Inc.</i>, Investment Company Act Release No. 22055 (July 8, 1996).</p>		
<p>1999-03</p> <p>Financial Highlights and Fee Table Disclosures</p>	<p>Dear CFO (12/30/1999)</p>	<p>We have reviewed a number of financial highlights tables where registrants have incorrectly calculated the ratio of expenses to average net assets (“the expense ratio”). The expense ratio is calculated by dividing total expenses by average net assets.¹ We have noted that a number of registrants are incorrectly reducing total expenses by brokerage offsets, custodial credits and/or other expense reductions.² Certain registrants also are excluding interest and dividend expenses, attributable to securities sold short, from total expenses.³ Registrants are reminded that total expenses may be reduced only by fee waivers or reimbursements.</p> <p>In our review of prospectuses, we have noted that some registrants are reducing the fee table expense percentages with custodial credits and/or other third-party offset arrangements. We remind registrants that the use of these credits and offsets to reduce fund expense ratios is inconsistent with the requirements of the form.⁴ Only contractual waivers or reimbursements may be used to reduce expense percentages in the fee table.⁵</p>
<p>¹ <i>See</i> Instruction 4 to Item 13 of Form N-1A; Instruction 16 to Item 4 of Form N-2.</p> <p>² <i>See</i> Rule 6-07.2(g) of Regulation S-X.</p> <p>³ <i>See</i> Letter from Lawrence A. Friend, Chief Accountant, Division of Investment Management, to Chief Financial Officers (Nov. 7, 1997) (section concerning closed-end fund expense ratios).</p> <p>⁴ <i>See</i> Item 3 of Form N-1A; Item 3 of Form N-2.</p> <p>⁵ <i>See</i> Letter from Barry D. Miller, Associate Director, Division of Investment Management, to Craig S. Tyle, Esq., General Counsel, Investment Company Institute (Oct. 2, 1998).</p>		

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<p>1999-04</p> <p>Holding Period for Seed Capital Shares</p>	<p>Dear CFO (12/30/1999)</p>	<p>Recently, we have received a number of questions regarding the holding period for shares purchased pursuant to Section 14(a) of the 1940 Act as part of a fund's initial registration with the Commission. Some registrants and their sponsors appear to believe that the holding period for seed capital shares is related to the period over which a fund amortizes the organization costs. This view appears to have been the result of the staff's position that if any original shares are redeemed during the five-year amortization period, then the redemption proceeds must be reduced by any unamortized organization costs. Registrants and their sponsors apparently interpret this requirement to suggest that there is a five-year holding period for seed capital shares. With the implementation of AICPA SOP 98-5,¹ the ability to capitalize and amortize organization costs over a five-year period was eliminated. Consequently, many registrants and sponsors have asked us whether they may redeem seed capital shares shortly after a fund becomes effective.</p> <p>We remind registrants and their sponsors that the redemption of seed capital shares is subject to the requirements of Section 14(a) of the 1940 Act. The legality of a sponsor redeeming seed capital shares depends on the facts and circumstances of the redemption and is not based on the accounting for organization costs.²</p>
<p>¹ See American Institute of Certified Public Accountants, Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities" (Apr. 3, 1998). Note: SOP 98-5 was eventually codified into U.S. GAAP in ASC Topic 720.</p> <p>² Section 14(a) has been interpreted to mean that a new investment company cannot make a public offering of its securities unless the company has a <i>bona fide</i> net worth of \$100,000, and that such amount cannot be loaned or redeemed as a temporary accommodation by those persons who make the investment, nor can there be any intention, when the investment is made, to redeem or dispose of such investment. See, e.g., <i>Automation Shares, Inc.</i>, 37 S.E.C. 771 (1957); <i>Champion Fund, Inc.</i> (pub. avail. Mar. 9, 1972 and June 26, 1972).</p>		
<p>1999-05</p> <p>Adviser Accounting for Offering Costs</p>	<p>Dear CFO (12/30/1999)</p>	<p>In September of 1998, the Financial Accounting Standards Board (FASB) staff addressed the proper accounting treatment for the initial offering costs of closed-end funds in Emerging Issues Task Force (EITF) Topic No. D-76.¹ The FASB staff concluded that an adviser could not capitalize the offering costs of closed-end funds because the adviser was not receiving both a continuing distribution fee and a contingent deferred sales charge (CDSC) or early withdrawal charge (characteristics of certain open-end funds previously addressed by the EITF). Under EITF Issue No. 85-24, advisers of open-end funds are permitted to capitalize offering costs if the adviser is compensated for the offering costs through both Rule 12b-1 fees (a continuing distribution fee) and CDSCs.²</p> <p>Certain closed-end funds, such as hybrid or interval funds ("hybrid funds"), objected to the FASB staff's position on the basis that hybrid funds have many of the same features as open-end funds. Hybrid funds continuously offer shares to the public and honor redemption requests at preset dates, usually quarterly or monthly. Each hybrid fund also receives an exemptive order from the Commission that allows it to charge distribution fees and early withdrawal charges, charges that are similar to Rule 12b-1 fees and CDSCs of open-end funds.³ In an update to Topic No. D-76, the FASB staff concluded that an adviser to a hybrid fund may capitalize initial offering costs if the adviser receives both a distribution fee and early withdrawal charges. We would not object to the capitalization of initial offering costs in these situations provided that the investment company registrant has received an exemptive order permitting both distribution fees and early withdrawal charges</p>
<p>¹ See EITF Topic No. D-76, "Accounting by Advisors for Offering Costs Paid on Behalf of Funds, When the Advisor Does Not Receive Both 12b-1 Fees and Contingent Deferred Sales Charges" (July 23, 1998; Sept. 23-24, 1998).</p> <p>² See EITF Issue No. 85-24, "Distribution Fees by Distributors of Mutual Funds That Do Not Have a Front-End Sales Charge" (June 27, 1985 and February 6, 1986).</p> <p>³ See, e.g., <i>Cypresstree Asset Management Corporation, et al.</i>, Investment Company Act Release Nos. 23312 (July 10, 1998) (notice) and 23378 (Aug. 5, 1998) (order).</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
1999-06 Independence Standards Board Recordkeeping Requirements	Dear CFO (12/30/1999) Rescinded Dear CFO (11/22/2019)	In January 1999, the Independence Standards Board issued its first standard, Independence Discussions with Audit Committees. ¹ The standard requires auditors to discuss their independence with either the company's audit committee or board of directors. Auditors must disclose, in writing, all relationships between the auditor and its related entities and the company and its related entities that may impact and auditor's independence. Auditors also must affirm, in writing, that in their judgment they are independent of the company. We remind registrants that this correspondence is subject to inspection during periodic and other reviews. ²
<p>¹ See Independence Standards Board, Independence Standard No. 1, "Independence Discussions with Audit Committees" (January, 1999). This Standard is effective for companies with fiscal years ending after July 15, 1999.</p> <p>² See Rule 31a-1(a) under the Investment Company Act. ("Every registered investment company . . . shall maintain and keep current the accounts, books, and other documents relating to its business which constitute the record forming the basis for financial statements required to be filed pursuant to Section 30 of the Investment Company Act of 1940 and of the auditor's certificates relating thereto"). Under Rule 2-01(b) of Regulation S-X, an auditor is required to be independent. The new Standard requires the independent accountants to confirm in writing that they are in fact independent. This required communication supports the auditor's certificate that they were independent in performing their duties.</p>		
1999-07 Issuance of AICPA Audit and Accounting Guide	Dear CFO (12/30/1999)	On September 14, 1999, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants approved the AICPA Audit and Accounting Guide for Investment Companies. The audit guide outlines changes to existing practice that, in certain areas, differs from the requirements of Regulation S-X under the federal securities laws. For example, the audit guide permits the presentation of a condensed schedule of investments containing only a fund's 50 largest holdings. In contrast, Rule 12-12 of Regulation S-X requires all securities held by a fund to be separately listed in the schedule. We remind registrants that notwithstanding the audit guide, the financial statements of registered investment companies must be prepared in accordance with the requirements of Regulation S-X.
1999-08 Financial Statements Submitted via EDGAR	Dear CFO (12/30/1999)	We would like to remind registrants that all semi-annual and annual reports must be filed with the Commission within 10 days of distribution to shareholders. ¹ Semi-annual and annual reports must be submitted electronically via EDGAR under submission type "N-CSRS" and "N-CSR" and other interim or periodic reports should be submitted under type "N-30B-2." We also remind registrants that financial statements can be incorporated into a registration statement, post-effective amendment or other document by reference, but only if the requirements of Rule 303 of Regulation S-T have been met.
<p>¹ See Rule 30b2-1 under the 1940 Act.</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>2001-01</p> <p>Audit Guide Implementation</p>	<p>Dear CFO (02/14/2001)</p>	<p>On November 21, 2000, the American Institute of Certified Public Accountants revised its Audit and Accounting Guide, Audits of Investment Companies. The revised Guide codifies new accounting standards on several issues, including amortization of premium or discount on bonds, accounting for offering costs, and the accounting for excess expense plans. Registrants and their auditors are reminded that Staff Accounting Bulletin No. 74 requires disclosure of the impact of new accounting standards that have been promulgated, but are not yet effective, in the footnotes to the financial statements.¹ This disclosure should include a brief description of the new standard, a discussion of the methods of adoption allowed by the standard, a discussion of the impact that adoption of the standard is likely to have on the financial statements, and disclosure of the potential impact of other significant matters that the registrant believes might result from the adoption of the standard.²</p>
<p>¹ See Disclosures by Registrant When an Accounting Standard Has Been Issued But Not Yet Adopted, SEC Staff Accounting Bulletin No. 74, 53 Fed. Reg. 110 (1987) (Adding Topic 11-M "Disclosure of the Impact that Recently Issued Accounting Standards Will Have on the Financial Statements of the Registrant When Adopted in a Future Period" to the Staff Accounting Bulletin Series). SAB 74 states:</p> <p>The staff believes that this disclosure guidance applies to all accounting standards which have been issued but not yet adopted by the registrant unless the impact on its financial position and results of operations is not expected to be material. In those instances where a recently issued standard will impact the preparation of, but not materially affect, the financial statements, the registrant is encouraged to disclose that a standard has been issued and that its adoption will not have a material effect on its financial position or results of operations. When adoption of new accounting standards have a material impact on a registrant's financial position and results of operations, disclosure should be made in the footnotes to the company's financial statements.</p> <p>² Under Item B.21 of Form N-CEN, registrants are required to indicate any change in accounting principle that will materially affect the registrant's financial statements filed, or to be filed, for the current fiscal year with the Commission. Item B.21 also requires the registrant's accountants to prepare a letter approving or otherwise commenting on the change to accompany this disclosure. We will not, however, require this letter if an accounting change results solely from a standard promulgated by a new Audit and Accounting Guide.</p>		

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<p>2001-02</p> <p>Senior Securities Table Disclosure</p>	<p>Dear CFO (02/14/2001)</p> <p>Modified</p> <p>Dear CFO (10/23/2020)</p>	<p>Item 4 of Form N-2 requires the registration statement of registered closed-end funds and business development companies to disclose certain information for each class of senior securities in a table.¹ This information is required to be audited.²</p> <p>Registrants often incorporate by reference the fund’s annual report to meet the form's requirements to include financial statements, financial highlights, and an audit opinion covering the financial statements and financial highlights.³ However, registrants may decide not to include the senior securities table information in that annual report because this information is only required in the annual report if the registrant has filed a short-form registration statement pursuant to General Instruction A.2 of Form N-2. Moreover, if a registrant files a short-form registration statement, the senior securities table is required to be included in the annual report⁴ but is not required to be included in the financial statements or financial highlights. We do not believe the requirement that the senior securities table be audited is met merely because the information in the table is derived from audited financial statements. To meet the audit requirement, the independent accountant must express an opinion on the senior securities table itself or on a financial statement or financial highlights that include the senior securities table. Registrants must include, or incorporate by reference, this opinion in the registration statement. There are several ways to meet the senior securities audit requirement:</p> <ul style="list-style-type: none"> • Registrants can include the senior securities table information in the financial highlights⁵. Since the financial highlights are specifically covered by the audit opinion,⁶ the senior securities table information also would be covered; • Registrants can include the senior securities table information elsewhere in the annual report, with the audit opinion expressly covering the senior securities table; or • Registrants that are not filing a registration statement pursuant to General Instruction A.2 of Form N-2 can include the senior securities table only in the registration statement, with a separate audit opinion in the registration statement covering the senior securities table information.
<p>¹ Item 4.3 of Form N-2, (captioned Senior Securities (hereinafter “Senior Securities Table”)) states: Furnish the following information as of the end of the last ten fiscal years for each class of senior securities (including bank loans) of Registrant. If consolidated statements were prepared as of any of the dates specified, furnish the information on a consolidated basis: (1) Year; (2) Total Amount Outstanding Exclusive of Treasury Securities; (3) Asset Coverage Per Unit; (4) Involuntary Liquidating Preference Per Unit; and (5) Average Market Value Per Unit (Exclude Bank Loans).</p> <p>² Item 4.3 instructs registrants preparing the senior securities table to follow Instruction 8 to Item 4.1, which requires at least the latest five fiscal years of the senior securities table to be audited.</p> <p>³ Item 24 of Form N-2, (captioned Financial Statements), prescribes the contents of annual reports to shareholders required by section 30 of the Investment Company Act of 1940. The annual report must include the financial statements prescribed under Articles 3 and 6 of Regulation S-X (17 C.F.R. §§ 210.3-01 to -20, 210.6-01 to -11 (2020)) and the financial highlights table under Item 4.1 of the Form. Item 24 of Form N-2 does not specifically require the senior securities table to be included in annual reports to shareholders, unless a registrant has filed a short-form registration statement.</p> <p>⁴ Instruction 4.h. to Item 24(h) of Form N-2 instructs a registrant to include in the annual report the senior securities information required by Item 4.3 if the registrant has filed a registration statement pursuant to General Instruction A.2.</p> <p>⁵ As explained in FASB ASC 946-205-50-1, the financial highlights can be presented either as a separate schedule or within the notes to the financial statements.</p> <p>⁶ Instruction 8 to Item 4.1 of Form N-2 (captioned Financial Highlights), requires the financial highlights to be audited.</p>		
<p>2001-03</p> <p>Performance Verification and Auditor Consents</p>	<p>Dear CFO (02/14/2001)</p> <p>Modified</p> <p>Dear CFO (11/22/2019)</p>	<p>We have observed registrants presenting certain private account performance information for investment advisers in their registration statements and disclose that this information is presented in accordance with the Global Investment Performance Standards (“GIPS”). We have noted that a number of these presentations do not fully comply with the requirements of GIPS. For example, many presentations do not include the standard compliance statement required by GIPS. If registrants choose to disclose that performance information is prepared and presented in accordance with GIPS, then we remind registrants that it may be misleading to not comply with all of the performance and presentation standards required by the GIPS.</p> <p>Additionally, when a third party, such as an independent public accountant, is named in a registration statement as having performed a verification in accordance with GIPS, the written consent of that third party is required to be filed as an exhibit to the registration statement, consistent with the requirement of rule 436 and Section 7(a) of the Securities Act of 1933.¹</p>

¹ Section 7 of the 1933 Act states:

If any accountant, engineer, or appraiser, or any person whose profession gives authority to a statement made by him, is named as having prepared or certified any part of the registration statement, or is named as having prepared or certified a report or valuation for use in connection with the registration statement, the written consent of such person shall be filed with the registration statement.

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>2001-04</p> <p>Discounting Market Quotations for Large Holdings (Block Discounts)</p>	<p>Dear CFO (02/14/2001)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>We recently received a question about whether it is appropriate for a registered investment company to value an unrestricted security at a discount or premium from a readily available market quotation based solely on the size of the investment company's holding. The 1940 Act requires a registered investment company to value securities using market quotations when they are readily available.¹ Therefore, we do not believe it is appropriate to discount or mark-up a readily available market price for an unrestricted security solely because an investment company holds a large quantity of the outstanding shares of an issuer or holds an amount that is a significant portion of the security's average daily trading volume.</p>
<p>¹ See 15 U.S.C. § 80a-2(a)(41) (2000) (Section 2(a)(41) of the 1940 Act); 17 C.F.R. § 270.2a-4 (2000) (Rule 2a-4 under the 1940 Act).</p>		
<p>2001-05</p> <p>Updating Requirements for Financial Highlights Included in a Registration Statement Subsequent to a Stock Split</p>	<p>Dear CFO (02/14/2001)</p>	<p>Several registrants have asked whether retroactive adjustment to the financial highlights and financial statements is required after an investment company issues a stock split.¹ Staff Accounting Bulletin Topic 4C requires that a change in capital structure be presented retroactively if such change occurs before the release of the financial statements or the effective date of the registration statement, whichever is later.² When a stock split occurs after the effective date of the registration statement, some registrants make a supplemental filing pursuant to Rule 497 ("sticker") to provide investors with information about the transaction, including an updated financial highlights table showing the effect of the stock split on a per share basis. Since the supplemental filing under Rule 497 does not update the registration statement, this information does not need to be audited. When a registrant files its annual update or any other post-effective amendment to the registration statement, however, the registrant is required to include an audited retroactively adjusted financial highlights table.</p>
<p>¹ A fund must provide its financial highlights pursuant to either Item 13 of Form N-1A, or Item 4 of Form N-2.</p>		
<p>² See Topic 4-C of the Staff Accounting Bulletin Series ("Change in Capital Structure").</p>		
<p>2001-06</p> <p>Pro Forma Financial Statements and Filings Pursuant to Rule 488 of the Securities Act of 1933</p>	<p>Dear CFO (02/14/2001)</p>	<p>Typically, management investment companies file a registration statement on Form N-14 when merging investment companies and may elect to file pursuant to Rule 488 under the 1933 Act requesting automatic effectiveness.¹ As a condition to Rule 488, the filing must be materially complete. We have seen a growing number of registration statements filed pursuant to Rule 488 that do not include the required pro forma, audited annual, or unaudited semi-annual financial statements. When an open-end investment company files pursuant to Rule 488 and excludes this information, the staff considers the filing materially incomplete, and pursuant to delegated authority will suspend the automatic effectiveness by notifying the registrant in writing.²</p>
<p>¹ Rule 488(a) under the 1933 Act states: "A registration statement filed on Form N-14 by a registered open-end management investment company . . . shall become effective on the thirtieth day after the date upon which it is filed with the Commission" 17 C.F.R. § 230.488(a) (2000).</p>		
<p>² Rule 488(b) under the 1933 Act states: "No registration statement shall become effective pursuant to paragraph (a) of this section if, prior to the effective date of the registration statement, it should appear to the Commission that the registration statement may be incomplete or inaccurate in any material respect and the Commission furnishes to the registrant written notice that the effective date is to be suspended." 17 C.F.R. § 230.488(b) (2000).</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>2001-07</p> <p>Financial Highlights and Financial Statements During Reorganizations When Performance is being carried over</p>	<p>Dear CFO (02/14/2001)</p>	<p>The staff receives numerous inquiries each year on the financial statements and financial highlights requirement for “shell” investments companies who utilize the historical performance of a predecessor entity subsequent to reorganization. In August, the Division granted no-action relief to Janus Adviser Series, permitting the Adviser Series to use the historical performance information of the predecessor entities (in this case several classes) in their initial registration statement provided that, among other things, Adviser Series represented it would carry forward the financial statements and financial highlights of the predecessor entities and report their historical financial information as their own.¹ When investment companies reorganize existing funds or classes into new "shell" entities and carry over past performance information, the new "shell" entities should also carryover the prior financial highlights and financial statements.</p>
<p>¹ See Janus Adviser Series (pub. avail. Aug. 28, 2000).</p>		
<p>2001-08</p> <p>Auditor Independence Issues</p>	<p>Dear CFO (02/14/2001)</p> <p>Rescinded</p> <p>Dear CFO (11/22/2019)</p>	<p>In last year's "Dear CFO Letter," we reminded registrants of the requirements of Independence Standards Board, Independence Standard No. 1, Independence Discussions with Audit Committees (ISB No.1).¹ ISB No.1 requires auditors to discuss, in writing, all relationships between the auditor and its related entities and the company and its related entities that may impact an auditor's independence and affirm, in writing, that in their professional judgment they are independent of the company.² During our examination of registrants, we have found several instances where the auditor did not deliver the required written correspondence to the audit committee or board of directors. We remind registrants and auditors for both investment companies and investment advisers that auditors of any financial statements filed with the Commission must comply with the provisions of ISB No.1.³</p> <p>ISB No.1 also requires auditors to discuss their independence with management. In this discussion we encourage the board of directors or their audit committee to consider the Commission's recently adopted rule amendments concerning auditor independence.⁴ Those amendments identify certain relationships that render an accountant not independent of an audit client. The relationships addressed include, among others, financial, employment, and business relationships between auditors and audit clients, and relationships between auditors and audit clients where the auditors provide certain non-audit services to their audit clients. As applied to investment companies and investment advisers, we encourage a robust discussion of services provided by auditors to related entities within the mutual fund complex, including affiliated broker/dealers and other funds in the complex and the potential independence issues that may arise.</p>
<p>¹ See Independence Standards Board, Independence Standard No. 1, "Independence Discussions with Audit Committees" (Jan., 1999). ISB No.1 became effective for audits of companies with fiscal years ending after July 15, 1999.</p> <p>² See Letter from John S. Capone, Chief Accountant, Division of Investment Management to Chief Financial Officer (pub. avail. Dec. 30, 1999).</p> <p>³ Audited financial statements filed with the Commission in compliance with forms under the Investment Company Act of 1940 and the Investment Advisers Act of 1940 must follow Regulation S-X, including those filed pursuant to Schedule G of Form ADV. See, e.g., 17 C.F.R. § 210.1-01(a)(4) (2000). Rule 2-01 of Regulation S-X requires an auditor to be independent. 17 C.F.R. § 210.2-01 (2000). For those advisors that are sole proprietors, or who do not have a board of directors, or an audit committee or their equivalents, correspondence should be addressed to the person, or group of persons, who is responsible for selecting and ratifying the independent auditor.</p> <p>⁴ See Revisions of the Commission's Auditor Independence Requirements, Securities Act Release No. 7919, 65 Fed. Reg. 76008, (Nov. 21, 2000).</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>2001-09</p> <p>Ratification of Independent Accountants</p>	<p>Dear CFO (02/14/2001)</p>	<p>The Commission has adopted amendments to the rules under the 1940 Act effective February 15, 2001, which pertain to the role of independent directors of investment companies.¹ Included in the amendments is Rule 32a-4, a new rule that exempts investment companies from the Act's requirement that shareholders vote on the selection of the fund's independent public accountant if the investment company has an audit committee composed wholly of independent directors.² While the rule is optional, we encourage investment company registrants to consider adopting an audit committee consisting solely of independent directors.</p>
<p>¹ See Role of Independent Directors of Investment Companies, Investment Company Act Release No. IC-24816, 66 Fed Reg. 3,734 (2001).</p>		
<p>² This rule is effective February 15, 2001. <i>See Id.</i> at 3,745. Under the provisions of this rule, a registered management investment company, or a registered face-amount certificate company, is exempt from the provision of section 32(a)(2) of the Act (<i>codified at</i> 15 U.S.C. § 80a-32(a)(2) (2000)) that requires the selection of the company's independent public accountant be submitted for ratification or rejection at the next succeeding annual meeting of shareholders, if: (a) The company's board of directors has established a committee, composed solely of directors who are not interested persons of the company, that has responsibility for overseeing the fund's accounting and auditing processes ("audit committee"); (b) The company's board of directors has adopted a charter for the audit committee setting forth the committee's structure, duties, powers, and methods of operation or set forth such provisions in the fund's charter or bylaws; and (c) The company maintains and preserves permanently in an easily accessible place a copy of the audit committee's charter and any modification to the charter.</p>		
<p>2019-01</p> <p>Business Development Companies – Auditor Verification of Securities Owned</p>	<p>Investment Management “Issues of Interest” (03/12/2012)</p> <p>Modified</p> <p>Dear CFO (11/22/2019)</p>	<p>Under Section 30(g) of the 1940 Act, the certificate of independent public accountants (“auditor”) contained in the financial statements of investment companies registered under the 1940 Act must include a statement "that such independent public accountants have verified securities owned, either by actual examination, or by receipt of a certificate from the custodian." Although Section 59 of the 1940 Act does not make Section 30(g) applicable to BDCs, a BDC's auditor plays an important role under the 1940 Act in preventing a BDC's assets from being lost, misused or misappropriated. Therefore, the Staff believes that it is best practice for a BDC to have its auditor verify all of the securities owned by the BDC, either by actual examination or by receipt of a certificate from the custodian, and affirmatively state in the audit opinion whether the auditor has confirmed the existence of all such securities.</p>
<p>2019-02</p> <p>Investment Company Act Section 19(a) Notice Requirements</p>	<p>Dear CFO (11/22/2019)</p>	<p>Section 19(a) of the 1940 Act prohibits a fund from making a distribution from any source other than the fund’s net income, unless that payment is accompanied by a written statement¹ which adequately discloses the source of any payment or dividend distribution wholly or partly from any source other than: accumulated undistributed net income, determined in accordance with good accounting practice, or net income determined for the current or preceding fiscal year. The Staff believes that “good accounting practice” means financial information prepared in accordance with U.S. generally accepted accounting principles. However, the Staff would not object if the tax basis of such financial information is utilized instead, so long as the basis for calculating such sources is used consistently. Additionally, as income tax calculations are typically not prepared until the end of the year, registrants should ensure the Rule 19(a)-1 notice contains the best estimate at the time of delivery. Further, the Staff believes that income tax forms provided to investment company investors, including Internal Revenue Service Form 1099-DIV, are not appropriate vehicles to comply with the communication requirements of Section 19(a) because they are not made contemporaneously with each distribution.²</p> <p>Registrants are also reminded that Item B.23 of Form N-CEN requires registrants to state whether any dividends or distributions made during the reporting period required a written statement to shareholders pursuant to Section 19(a) of the 1940 Act and Rule 19(a)-1 thereunder.</p>
<p>¹ The Staff has previously shared our views concerning the electronic delivery of a Rule 19a-1 notice in IM Guidance Update No. 2013-11, <i>Shareholder Notices of the Sources of Fund Distributions – Electronic Delivery</i>, issued in November 2013.</p>		
<p>² <i>See e.g., In re Gabelli Funds, LLC</i>, Release No. IA-2827 (Jan. 12, 2009) at n.7.</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>2020-01</p> <p>Determining Commencement of Operations Date</p>	<p>Dear CFO (10/23/2020)</p> <p>New</p>	<p>Determination of the commencement of operations date can be complex. For financial reporting purposes, once a fund’s registration statement is effective, it is deemed to have commenced operations and annual and periodic financial statements are required to be filed, including audited financial statements at the initial fiscal year end date.¹ For purposes of performance calculations, a fund calculates average annual total return from the date of effectiveness of the fund’s registration statement.² However, the staff has stated that it would not recommend enforcement action to the Commission if a fund calculates its standardized average annual total return from the date that the fund commenced investment operations (<i>i.e.</i>, began to invest in accordance with its investment objectives), if that date follows the date of effectiveness of the fund's registration statement.³ A fund should use the alternative that presents, in all material aspects, the most accurate portrayal of its performance.⁴</p> <p>The staff would not recommend enforcement action to the Commission if a registered investment company that has had no operational activity other than that from initial seed capital and organization and offering costs and that has not commenced investment operations and that elects this alternative commencement date for performance calculation purposes omits certain statements or schedules (e.g. statement of changes in net assets, statement of cash flows, and/or financial highlights) from its annual and periodic filings until such investment operations have commenced.⁵</p> <p>When determining whether a fund has commenced operations, the staff reminds registrants that transactions are recorded as of the trade date for financial reporting purposes.⁶ Therefore, if the trade date of a transaction is on or prior to the fund’s fiscal year end, the staff would require complete audited financial statements, including financial highlights, for such fiscal year end.</p>
<p>¹ Section 30(a) and (b) and Rule 30d-1 of the Investment Company Act of 1940 which requires registered investment companies to file financial statements with the Commission.</p> <p>² See rule 482(d)(3) of the Securities Act of 1933, Item 4(b)(2)(ii) and (iii) of Form N-1A, and Instruction 4(g)(2)(B) to Item 24 of Form N-2.</p> <p>³ Letter to Lindbergh Funds, publicly available October 30, 2002. https://www.sec.gov/divisions/investment/noaction/lindbergh103002.htm</p> <p>⁴ <i>See id.</i> In addition, the presentation of a fund's performance information, regardless of the alternative used by the fund, must not be materially misleading. See Section 34(b) of the Investment Company Act of 1940. We believe that a fund should consistently use the date that it has selected when it calculates its standardized average annual total return (e.g., a fund that uses the date that it commenced investment operations to calculate its standardized average annual return for purposes of Rule 482 should use the same date to calculate its standardized average annual return for purposes of Item 4(b)(2)(iii) of Form N-1A). <i>See id.</i></p> <p>⁵ Rule 6-03 of Regulation S-X states in part, “ The financial statements filed for persons to which §§ 210.6-01 to 210.6-10 are applicable shall be prepared in accordance with the following special rules in addition to the general rules in §§ 210.1-01 to 210.4-10 (Articles 1, 2, 3, and 4)” and Rule 4-03(b) of Regulation S-X states “Financial statements not required or inapplicable because the required matter is not present need not be filed”.</p> <p>⁶ As described in FASB ASC 946-320-25-1, an investment company shall record security purchases and sales as of the trade date, the date on which the investment company agrees to purchase or sell the securities, so that the effects of all securities trades entered into by or for the account of the investment company to the date of a financial report are included in the financial report and FASB ASC 946-20-25-7, the purchase and sale of fund shares is recorded on the date that the order is received (trade date), not the day that the payment is due (settlement date).</p>		

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<p>2020-02</p> <p>Business Development Companies – Financial Statements in Initial Registration Statements</p>	<p>Dear CFO (10/23/2020)</p> <p>New</p>	<p>Form N-2 under the Securities Act of 1933 and Investment Company Act of 1940 and Form 10 under the Securities Exchange Act of 1934 require business development companies (“BDCs”) that register their securities on such forms to furnish financial statements.¹ The staff would not recommend enforcement action to the Commission if a BDC includes only a statement of assets and liabilities in its financial statements filed on Form N-2 or Form 10, if the BDC has received only initial seed capital as of the date of the financial statements. The staff would also not recommend enforcement action to the Commission if a BDC includes only a statement of assets and liabilities and a statement of operations in such financial statements, if the BDC has incurred only organization and offering expenses as of the date of the financial statements.</p>
<p>¹ Instruction 1a to Item 24 of Form N-2 (captioned Financial Statements) and Item 13 of Form 10 (captioned Financial Statements and Supplementary Data).</p>		

IM-DCFO Identifier and Title	Source and Status	Staff Position
<p>2020-03</p> <p>Combined Financial Statements for Compliance with Advisers Act Rule 206(4)-2</p>	<p>Dear CFO (10/23/2020)</p> <p>New</p>	<p>Rule 206(4)-2 [17 CFR § 275.206(4)-2] – <i>Custody of Funds or Securities of Clients by Investment Advisers</i> (the “Custody Rule”) of the Investment Advisers Act of 1940 requires investment advisers who have custody of funds or securities of clients, among other things, to maintain the funds and securities in an account with a qualified custodian (as defined in the Custody Rule) in each client’s name, or in an account in the adviser’s name for the benefit of its clients. Paragraph (b)(4) of the Custody Rule (“audit exception”) permits an adviser to comply with certain aspects¹ of the Custody Rule if an account of a limited partnership (or limited liability company, or another type of pooled investment vehicle) (collectively, “PIVs”) is subject to audit (as defined in rule 1-02(d) of Regulation S-X (17 CFR 210.1-02(d)).</p> <p>An investment adviser may wish to obtain audits of financial statements for multiple PIVs on a combined basis for operational purposes. ASC 810-10-55-1B states, in part, that “[t]here are circumstances, however, in which combined financial statements (as distinguished from consolidated financial statements) of commonly controlled entities are likely to be more meaningful than their separate financial statements. For example, combined financial statements would be useful if one individual owns a controlling financial interest in several entities that are related in their operations. Combined financial statements might also be used to present the financial position and results of operations of entities under common management.”</p> <p>For purposes of compliance with the audit exception, however, we do not believe an investment adviser can prepare combined financial statements for multiple PIVs in reliance solely on the common management basis in ASC 810-10-55-1B. For example, in the staff’s view, if the economics of each PIV are different and not pro rata (e.g., certain PIVs only participate in certain investments or have differing fee arrangements or rights), the combined financial statements may provide less clarity about an investor’s ownership than if separate financial statements were provided to all limited partners (or members or other beneficial owners) in each PIV.</p> <p>The staff believes that if an investment adviser uses combined financial statements to rely on the audit exception, the investment adviser should consider whether:</p> <ul style="list-style-type: none"> • Each PIV has the same management; • There is clear evidence of legal ownership of each investment individually with each PIV or there are contractual agreements which clearly show the assignment of investments held on a combined basis to each PIV; • Investments and investment gains and losses, including income and expenses, are allocated pro rata to each PIV; • Each PIV has the same management fee and performance fee structure (e.g., allocations work on a combined basis, calculated based on one hurdle on the combined basis, including combined fair values and contributions/distributions); • The financial highlights are the same for each PIV; and • The combined financial statements will <ul style="list-style-type: none"> ○ Present a statement of changes for each PIV separately and a combined aggregate total; and ○ Provide clear disclosure of each PIV’s pro rata percentage ownership of the combined basis, total commitments of each PIV, and aggregated commitments on a combined basis. <p>It is the staff’s view that there may be additional considerations an investment adviser should evaluate when using combined financial statements to rely on the audit exception, including whether some limited partners (or members or other beneficial owners) have different rights over the life of each PIV that would impact the financial reporting presentation on a combined basis. The investment adviser should evaluate whether or not an individual investor could reasonably interpret the information presented on a combined basis to the investor’s ownership in a specific PIV. The SEC staff encourages investment advisers and their auditors to consult with the staff if their fact patterns raise additional concerns or questions about the ability to utilize audits of financial statements for multiples PIVs on a combined basis for purposes of satisfying the Custody Rule.</p>

¹ Paragraph (b)(4) notes that PIVs subject to the audit exception are not required to comply with paragraph (a)(2) and (a)(3) and such PIVs shall be deemed to have complied with paragraph (a)(4).