



DIVISION OF
INVESTMENT MANAGEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

From the Chief Accountant of the Division of Investment Management:

Industry Comment Letter

November 22, 2019

Dear Chief Financial Officer:

The staff (the “Staff”) of the Chief Accountant’s Office of the Division of Investment Management (“the Division”) of the U.S. Securities and Exchange Commission (the “Commission”) has prepared this letter, directed to the Chief Financial Officer of the Division’s registrants and other relevant parties (“Dear CFO Letter”), to assist investment company registrants and their independent public accountants in addressing certain accounting, auditing, financial reporting, or other related disclosure matters (collectively, “accounting matters”). The views expressed in this letter and future Dear CFO Letters apply to filings, including reports to shareholders, made by registered investment companies and business development companies. The statements in these letters represent the views of the Staff of the Division. These letters are not rules, regulations, guidance, or statements 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.

It has been nearly two decades since the Staff of the Division has shared Staff views through the issuance of Dear CFO Letters and today the Division is reviving that practice. Beginning in November 1994 and through February

2001, the Staff issued eight Dear CFO Letters that covered relevant accounting matters at the time. Since then, the Staff has expressed views through other means, including IM Guidance Updates, IM Information Updates, Accounting and Disclosure Information, and Investment Management Staff Issues of Interest, as well as, expressed Staff views in correspondence with external industry participant groups such as the American Institute of Certified Public Accountants (“AICPA”) and with external registrants through no-action letters or relief granted under the Staff’s delegated authority under Regulation S-X Rule 3-13. These collective vehicles have been a practical tool to communicate the Staff’s views about accounting matters to the investment management industry, although nonbinding and creating no enforceable legal rights or obligations of the Commission or other parties. The Division believes that, by reviving the practice of issuing Dear CFO Letters, the Staff can convey current views to all registrants in a consistent and transparent manner.

The Division is also engaging in a review of prior Staff statements, including the prior Dear CFO Letters, to identify positions that require modification, rescission, or supplementation in light of market and other developments.¹ In the twenty five years since the Staff began issuing Dear CFO Letters, the federal securities laws have evolved and have further clarified or changed existing rules and regulations. Further, the Financial Accounting Standards Board (“FASB”) and the Public Company Accounting Oversight Board (“PCAOB”) have issued standards that have modified applicable accounting principles generally accepted in the United States (“U.S. GAAP”) and auditing requirements, respectively, that impact registered investment companies and business development companies. Additionally, Division views can evolve when Staff engage with registrants as part of the disclosure review process. Such developments have rendered some positions in prior Dear CFO Letters obsolete, superseded, or mooted and we express updated views on those positions today.²

¹ This is consistent with Chairman Jay Clayton’s public statement regarding Staff views, the distinction between those and the Commission’s rules and regulations, and the Staff’s efforts to continually review our Staff statements and documents. See “Statement Regarding SEC Staff Views” dated September 13, 2018 at <https://www.sec.gov/news/public-statement/statement-clayton-091318>.

² We have also identified previously expressed positions that require technical correction. For example, some positions require updates to reflect amendments adopted by the Commission to rules, Forms, or other requirements or to accurately reflect references to U.S. GAAP that have been codified into the Accounting Standards Codification (“ASC”).

In addition, the Division is taking steps to direct registrants and other stakeholders to the Staff's current views relevant to accounting matters communicated in the Dear CFO Letters. Specifically, the Division is adding an evergreen bibliography of accounting matters (the "Accounting Matters Bibliography") to the Division's website at www.sec.gov/investment-management.³ The Accounting Matters Bibliography will serve as a cumulative collection of current Staff positions on accounting matters expressed in Dear CFO Letters. The Accounting Matters Bibliography restates the prior Staff views and provides updates to views that we have identified for rescission, modification, or supplementation. The Accounting Matters Bibliography also includes a new position we are issuing today as part of the Staff's review of accounting matters. We continue to consider whether additional positions should be rescinded, modified, or supplemented or new positions that should be shared.

The remainder of this letter highlights the reasons for rescission or modification to the previously expressed Staff positions in Dear CFO Letters. It also provides an explanation for the new Staff position. For the substance of the current Staff positions, refer to the Accounting Matters Bibliography. The Staff encourage stakeholders to engage with us directly on any questions raised by the changes or if they believe there are other Staff positions that merit reevaluation.

by the FASB. We have not described the technical corrections made as we view these updates to be non-substantive and self-explanatory. These technical corrections are reflected in the Accounting Matters Bibliography described herein.

³ We are also adding an identifier to each position previously expressed in Dear CFO Letters, including new accounting matters identified going forward, in a form consistent with other Staff position identifiers. These identifiers include the year of issuance and the chronological number of the position expressed in each Dear CFO Letter (e.g., the first position in the November 1, 1994 Dear CFO Letter is IM-DCFO 1994-01).

IM-DCFO 1995-07 Accounting for Organization and Other Deferred Costs (November 2, 1995) – RESCINDED

IM-DCFO 1997-08 Organization Costs Considerations (November 7, 1997) – RESCINDED

IM-DCFO 1998-02 Organization Costs for Open-end Investment Companies (December 30, 1998) –
RESCINDED

The November 2, 1995, November 7, 1997, and the December 30, 1998 Dear CFO Letters each discussed the accounting treatment of organization and offering costs for investment companies. The most recent letter from December 30, 1998, in combination with developments in U.S. GAAP, replaced the previously expressed views. That letter discussed new accounting treatment options for organization costs to be expensed as incurred due to the rescission of the concept of the deferral of organization costs by investment companies through issuance by the AICPA of *Statement of Position 98-5 Reporting on Costs of Start-Up Activities* (SOP 98-5), which was ultimately codified in U.S. GAAP in FASB ASC Topic 720 in 2009.⁴ The accounting treatment for both organization and offering costs for investments companies has since been addressed in ASC Topic 946 as well. As such, we are rescinding the information contained in these items within the November 2, 1995, November 7, 1997, and December 30, 1998 letters.

IM-DCFO 1996-01 Undertaking to File Financial Statements (November 1, 1996) – RESCINDED

The November 1, 1996 Dear CFO Letter discussed certain financial statement filing requirements for newly organized funds. In the final rule *Registration Form Used by Open-End Management Investment Companies* adopted in March 1998,⁵ the Commission concluded that the “costs associated with the 4 to 6 month update are not outweighed by the benefits that the information may provide to some investors.” Therefore, Form N-1A was amended and no longer requires the filing of updated financial statements for a newly organized fund within the four to six month period after the effective date of its registration. As such, we are rescinding the information contained in this item within the November 1, 1996 letter.

⁴ See FASB ASC 720-15-25-1.

⁵ See Investment Company Act Release No. 23064 (Mar. 13, 1998) [55 FR 13916 (Mar. 23, 1998)].

IM-DCFO 1996-06 Average Commission Rate Considerations (November 1, 1996) – RESCINDED

The November 1, 1996 Dear CFO Letter discussed the presentation of certain elements included in the financial highlights table, specifically, the average commission rate paid. In the final rule *Registration Form Used by Open-End Management Investment Companies* adopted in March 1998,⁶ the Commission made several changes to the financial highlights table, including eliminating the disclosure requirement of the average commission rate paid from the prospectuses of open-end investment companies. As such, we are rescinding the information contained in this item within the November 1, 1996 letter.

IM-DCFO 1999-06 Independence Standards Board Recordkeeping Requirements (December 30, 1999) – RESCINDED

The December 30, 1999 Dear CFO Letter discussed certain requirements related to auditor independence matters and communications to audit committees. Auditor independence standards and the related auditor disclosure requirements have been codified within the Federal securities laws and within the relevant PCAOB and AICPA auditing and professional standards. For example, PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence*, states the requirement for auditors to describe, in writing, to the audit committee of the audit client, all relationships between the registered public accounting firm and audit client or persons in a financial reporting oversight role at the audit client that may reasonably be thought to bear on independence. Audit firms should look to the Federal securities laws and relevant auditor standards to assess auditor independence issues and the related relationship disclosure requirements. As such, we are rescinding the information contained in this item within the December 30, 1999 letter.

IM-DCFO 2001-04 Discounting Market Quotations for Large Holdings (Block Discounts) (February 14, 2001) – RESCINDED

The February 14, 2001 Dear CFO Letter discussed the application of valuation discounts or premiums to securities with readily available market quotations held by investment companies. The current accounting views

⁶ See *id.*

for fair value measurement states that premiums or discounts that reflect size as a characteristic of the reporting entity's holding, are not permitted in a fair value measurement.⁷ As this concept is now covered in the applicable accounting standards, we are rescinding the information contained in this item within the February 14, 2001 letter.

IM-DCFO 2001-08 Auditor Independence Issues (February 14, 2001) – RESCINDED

The February 14, 2001 Dear CFO Letter discussed certain requirements related to auditor independence matters and communications to audit committees. Auditor independence standards have been codified within the Federal securities laws, for example in Rule 2-01 of Regulation S-X, and also within the relevant PCAOB and AICPA auditing and professional standards. Audit firms should look to these sources in assessing auditor independence issues. As such, we are rescinding the information contained in this item within the February 14, 2001 letter.

IM-DCFO 1995-09 Financial Statement Presentation of Fee Waivers and Recapture (November 2, 1995 and November 22, 2019) – MODIFIED

In the November 2, 1995 Dear CFO Letter, the Staff expressed views regarding the disclosure of fee waivers and variance in presentation amongst industry participants. We are modifying and supplementing those previously expressed views to clarify current Staff views regarding the financial statement presentation and disclosure of recaptured expenses in a fund's fee table and other items related to expense recapture generally. The modifications and supplemented views included are being made primarily to conform to new Form instructions, new accounting standards or securities law references, as well as clarifications of current Staff positions with respect to the presentation of waived and recaptured expenses.

IM-DCFO 1997-02 Fund of Fund Considerations (November 7, 1997 and November 22, 2019) – MODIFIED

In the November 7, 1997 Dear CFO Letter, the Staff discussed considerations that funds should make when they have investments in other funds. We are modifying and supplementing this previously expressed position to

⁷ See ASC Topic 820-10-35-36B, "Premiums or discounts that reflect size as a characteristic of the reporting entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal trading volume is not sufficient to absorb the quantity held by the entity, as describe in FASB ASC Topic 820-10-35-44), rather than as a characteristic of the asset or liability (for example, a control premium when measuring fair value of a controlling interest), are not permitted in fair value measurement."

discuss the Staff's expectations for disclosure regarding the location of relevant financial information for a fund with a significant investment in an underlying fund. The modifications include incremental updates that provide further clarification about the Staff's position when a fund of funds invests in other funds that represent a significant portion of the fund of funds portfolio.

IM-DCFO 1997-06 Closed-End Fund Expense Ratios – Dividend Payments (November 7, 1997 and November 22, 2019) – MODIFIED

In the November 7, 1997 Dear CFO Letter, the Staff shared views about inconsistent presentation by registrants identified in the calculation of closed-end fund expense ratios. We are modifying and supplementing the previously expressed Staff position regarding dividend payments to preferred shareholders in an investment company's fee table. The additional views we express related to closed-end funds' expense ratios, specifically with respect to dividend payments to preferred stockholders, is consistent with comments provided by the Staff in the financial statement review process. The Staff position is that any dividend payments to preferred stockholder should be included as an expense in an investment company's fee and expense table.

IM-DCFO 1998-04 Change in Independent Public Accountant⁸ (December 30, 1998 and November 22, 2019) – MODIFIED

In the December 30, 1998 Dear CFO Letter, the Staff expressed views about the ways in which registrants should be reporting a change in independent public accountants. We are modifying and supplementing the previously expressed position due to changes to Form requirements or new Forms and to include Staff views on the inclusion of consents of accountants in registration statements and other filings.

⁸ The SEC Practice Section refers to "auditors" rather than "accountant" and "independent public accountant", terms which are utilized in the Commission requirements referenced. We use the terms interchangeably herein.

IM-DCFO 2001-03 Performance Verification and Auditor Consent (February 14, 2001 and November 22, 2019) – MODIFIED

In the February 14, 2001 Dear CFO Letter, the Staff expressed expectations about disclosures when registrants refer to Association for Investment Management & Research Performance Presentation Standards (“AIMR-PPS”). The AIMR-PPS were replaced in 2006 by the Global Investment Performance Standards (“GIPS”). As such, we are modifying this item to replace the reference to AIMR-PPS with GIPS and to include our views on the inclusion of consents of experts or specialists in registration statements or other filings.

IM-DCFO 2019-01 Business Development Companies – Auditor Verification of Securities Owned (March 12, 2012 and November 22, 2019) – MODIFIED

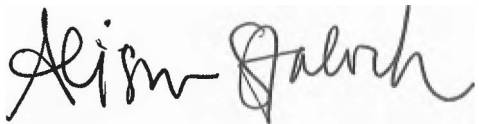
On March 12, 2012, the Staff expressed a view within the Investment Management Staff Issues of Interest about our expectations for audit testwork performed over the existence assertion for investments held by business development companies. We are incorporating this Staff position here, with minor modifications, to confirm that it reflects the Staff’s current views on this accounting matter and to include it within the Accounting Matters Bibliography so that stakeholders can more easily identify it as an accounting matter on our website.

IM-DCFO 2019-02 Investment Company Act Section 19(a) Notice Requirements (November 22, 2019) – NEW

We are expressing a Staff position about the requirements for communications concerning distributions. This Staff position is consistent with previously expressed views, Section 19(a)’s purpose, and its requirement that distributions made from any source other than the fund’s net income be accompanied by written statements.

These topics are meant to assist registrants and auditors in answering complex accounting and auditing questions. This letter contains information of importance to an investment company's independent public accountants; therefore, we encourage you to discuss these items with them. 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, including Jenson Wayne, Assistant Chief Accountant, Christina DiAngelo Fetting, Senior Staff Accountant, or me, at (202) 551-6918 or via email at IM-CAO@SEC.GOV.

Sincerely,

A handwritten signature in black ink that reads "Alison Staloch". The signature is written in a cursive, flowing style.

Alison Staloch

Chief Accountant

Division of Investment Management