



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

DIVISION OF
INVESTMENT MANAGEMENT

From the Chief Accountant of the Division of Investment Management:

Industry Comment Letter

March 30, 2021

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 registrants¹ and other relevant parties (“Dear CFO Letter”), to assist 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 all Dear CFO Letters apply to matters relevant to, and filings, including reports to shareholders, made by registrants. The statements in these letters represent the views of the Staff. 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.

In this letter we have highlighted the updates we are making to prior Staff positions on accounting matters that the Staff believes may require additional clarification in light of market and regulatory

¹ The use of “registrants” in all Dear CFO Letters is intended to include registered investment companies, business development companies, and issuers of insurance product securities, as well as registered investment advisers, where applicable.

developments, consultations with or inquiries from market participants, or other previously expressed Staff views.² These updates will be reflected in the Accounting Matters Bibliography on our website,³ which reflects all positions taken in Dear CFO letters since 1994, including positions that we have modified or withdrawn.⁴ The Staff encourages stakeholders to engage with us directly on any questions raised by the changes or if they believe there are other Staff positions that merit our reevaluation.

IM-DCFO 1994-02 Valuation of Certain Portfolio Investments (November 1, 1994) – WITHDRAWN

The November 1, 1994 Dear CFO Letter expressed Staff views regarding the application of the Commission’s Accounting Series Releases (ASR) 113 and 118 concerning the valuation of certain portfolio investments. In December 2020, the Commission adopted rule 2a-5 under the Investment Company Act concerning good faith determinations of fair value.⁵ In the Valuation Adopting Release, the Commission rescinded Accounting Series Releases 113 and 118, and noted certain Commission guidance, staff letters, and other staff guidance addressing a board’s determination of fair value and other matters will be rescinded or withdrawn, effective as of September 8, 2022, the compliance date

² We have also made certain revisions to previously expressed Staff positions to more clearly articulate the positions as applied broadly to all registrants. We have not described these revisions as we view these updates to be non-substantive and self-explanatory. These revisions are reflected in the Accounting Matters Bibliography described herein.

³ Accounting Matters Bibliography at <https://www.sec.gov/investment/accounting-matters-bibliography>.

⁴ We have historically referred to positions in these letters as being “rescinded,” however, as these are Staff positions, we are updating to use the terminology “withdrawn” to distinguish from rescission of Commission actions. Corresponding updates have been made to previous positions within the Accounting Matters Bibliography.

⁵ *Good Faith Determinations of Fair Value*, Investment Company Act Release No. 34128 (Dec. 3, 2020) [86 FR 748 (January 6, 2021)] (“Valuation Adopting Release”).

for rule 2a-5. Accordingly, the Staff position contained within the November 1, 1994 letter is withdrawn as of September 8, 2022.⁶

IM-DCFO 1995-11 Pro Forma Fee Tables and Capitalization Tables – MODIFIED

The November 2, 1995 Dear CFO Letter expressed Staff views regarding pro forma financial statements to be included in a registration statement on Form N-14 where multiple potential outcomes may exist. In May 2020, the Commission amended forms and rules concerning the financial reporting of acquisition and disposition of businesses, including investment companies.⁷ In particular, the Commission adopted Regulation S-X rule 6-11, which among other things, removed the requirement to provide pro forma financial statements in connection with fund acquisitions and instead requires supplemental information to be provided in its place.⁸ Accordingly, we are modifying the position contained in this item as well as the title of the item, to reflect the impact of rule 6-11 and to provide Staff views regarding pro forma fee tables and capitalization tables to be included in a registration statement where multiple potential outcomes may exist.

IM-DCFO 1997-01 Foreign Pricing Considerations (November 7, 1997) – MODIFIED

The November 7, 1997 Dear CFO Letter expressed Staff views regarding foreign pricing considerations when determining fair value of certain investments. As this concept is covered in the applicable accounting standards, we are modifying the position contained in this item within the November 7, 1997 letter. Furthermore in December 2020, the Commission stated in the Valuation Adopting Release that it is rescinding ASRs 113 and 118 in their entirety upon the compliance date of rule 2a-5.⁹ As such, we are modifying the position contained in this item within the November 7, 1997

⁶ Refer to the Valuation Frequently Asked Questions at <https://www.sec.gov/investment/valuation-faq-for-staff-views-on-the-rescission-of-auditing-guidance-contained-within-ASR-118>.

⁷ *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, Investment Company Act Release No. 33872 (May 20, 2020) [85 FR 54002 (Aug. 31, 2020)] (“Acquired Businesses Adopting Release”).

⁸ See Rule 6-11(d)(2) of Regulation S-X.

⁹ See Valuation Adopting Release, *supra* footnote 5, page 2.

letter to refer to accounting principles generally accepted in the United States (“U.S. GAAP”) and specifically the Financial Accounting Standards Board Accounting Standards Codification Topic 820 *Fair Value Measurements*. The position contained within the November 7, 1997 letter is modified as of September 8, 2022, the compliance date for rule 2a-5.

IM-DCFO 1997-03 Designation of Segregated Assets (November 7, 1997) – WITHDRAWN

The November 7, 1997 Dear CFO Letter expressed views on internal accounting and control issues related to assets segregated by registrants in connection with a Commission General Statement of Policy (“Release 10666”).¹⁰ In Release 10666, the Commission took the position that for certain instruments, a fund could “segregate” certain liquid assets rather than comply with restrictions on the issuance of senior securities in section 18 of the Investment Company Act of 1940. In November 2020, the Commission adopted rule 18f-4, which is designed to provide an updated, comprehensive approach to the regulation of funds’ use of derivatives and certain other transactions, including those addressed in Release 10666, and rescinded Release 10666, effective as of August 19, 2022.¹¹

Additionally, as noted in the Derivatives Adopting Release, certain Commission guidance, staff letters, and other staff guidance addressing derivatives transactions and other transactions covered by rule 18f-4 will be rescinded or withdrawn. Accordingly, we are withdrawing the Staff views discussed in this item as of August 19, 2022, the compliance date for rule 18f-4.

¹⁰ *Securities Trading Practices of Registered Investment Companies*, Investment Company Act Release No. 10666 (Apr. 18, 1979) [44 FR 25128 (Apr. 27, 1979)]. Release 10666 addressed reverse repurchase agreements, firm commitment agreements, standby commitment agreements, and similar arrangements. Subsequent Staff positions further addressed derivatives and other senior security trading practices.

¹¹ *Use of Derivatives by Registered Investment Companies and Business Development Companies*, Investment Company Act Release No. 34084 (Nov. 2, 2020) [85 FR 83162 (Dec. 21, 2020)] (“Derivatives Adopting Release”).

IM-DCFO 1997-06 Closed-End Fund Expense Ratios - Dividend Payments – MODIFIED

The November 7, 1997 Dear CFO Letter expressed views on presentation of preferred stock dividend payments, and was modified in the November 22, 2019 Dear CFO Letter to express additional Staff views related to closed-end funds' expense ratios specific to dividend payments to preferred stockholders. We are further clarifying this position on the presentation of these payments based on the liability or equity accounting treatment of the preferred stock.

IM-DCFO 1998-07 Financial Data Schedules – WITHDRAWN

The December 30, 1998 Dear CFO Letter expressed views on the EDGAR filing of financial data schedules from registrants who file Forms N-4 and S-6. Financial data schedules have been removed from the EDGAR filer manual, and accordingly, registrants no longer file such schedules. As a registrant is no longer required to file financial data schedules with any registration statement, we are withdrawing the views discussed in this item.

IM-DCFO 2001-06 Filings Pursuant to Rule 488 of the Securities Act of 1933 – MODIFIED

The February 14, 2001 Dear CFO Letter expressed Staff views on pro forma financial statements and filings pursuant to rule 488 under the Securities Act of 1933.¹² In May 2020, the Commission made changes to Forms and rules, including rule 3-05 and article 11 of Regulation S-X and adopted new rule 6-11, to, among other things, improve the disclosure requirements for financial statements relating to acquisitions and dispositions of businesses, including real estate operations and investment companies.¹³ For investment company registrants, the final rule included removing the requirement to provide pro forma financial statements in connection with fund acquisitions and instead requires

¹² See 17 C.F.R. § 230.488 (2020), which states, among other things, that a registration statement filed on Form N-14 by a registered open-end management investment company shall become automatically effective when certain criteria are met.

¹³ See Acquired Businesses Adopting Release *supra* footnote 7, page 3.

supplemental information to be provided in its place.¹⁴ As such, we are modifying the discussion contained in this item as well as the title of the position, to reflect the impact of the recent rulemaking and the Staff's view regarding certain information to be included in a registration statement filed pursuant to Rule 488.

IM-DCFO 2020-03 Combined Financial Statements for Compliance with Advisers Act Rule 206(4)-2 – MODIFIED

The October 23, 2020 Dear CFO Letter expressed Staff views on considerations that should inform an investment adviser's assessment of whether the investment adviser may satisfy the requirements of the exception for limited partnerships (or limited liability companies or other types of pooled investment vehicles) that are subject to an annual audit in accordance with rule 206(4)-2(b)(4) under the Investment Advisers Act of 1940 by distributing combined audited financial statements. We are modifying this position to revise the types of factors the Staff believes generally should be considered in this assessment.

IM-DCFO 2021-01 Insurance Products Transitioning to SAP from U.S. GAAP per Provision or Request (March 30, 2021) – NEW

We are expressing a Staff position regarding certain historical financial statement information to be included in a registration statement on Forms N-3, N-4, N-6, or S-1 for an insurance product where, in certain circumstances, the insurance company is transitioning from providing financial statements prepared under U.S. GAAP to those prepared under Statutory Accounting Principles ("SAP").

¹⁴ See Rule 6-11(d)(2) of Regulation S-X.

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 or auditing topics relevant to investment companies, please contact the Staff of the Division's Chief Accountant's Office, including Alex Bradford or Alexis Cunningham, Assistant Chief Accountants, Christina Fettig or John Kernan, Staff Accountants, 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