

MEMO# 32061

November 25, 2019

SEC Issues Dear CFO Letter for Investment Companies and Creates Accounting Matters Bibliography

[32061]

November 25, 2019 TO: ICI Members SUBJECTS: Audit and Attest

Closed-End Funds

Disclosure

Fees and Expenses

Fund Accounting & Financial Reporting

Tax RE: SEC Issues Dear CFO Letter for Investment Companies and Creates Accounting Matters Bibliography

On November 22, 2019 the staff of the Chief Accountant's Office of the SEC's Division of Investment Management issued a letter to investment company registrants addressing certain accounting, auditing, financial reporting and disclosure matters.[\[1\]](#) The staff also created and posted to its website an evergreen accounting matters bibliography intended to serve as a cumulative collection of current staff positions on accounting matters.[\[2\]](#)

The 2019 Letter indicates that the Division is engaging in a review of prior staff statements, including previously issued Dear CFO Letters,[\[3\]](#) to identify positions that require modification, rescission, or supplementation in light of market and other developments. Since the staff first issued Dear CFO Letters in 1994, the FASB has modified accounting standards, the PCAOB has modified auditing standards, and the Commission has adopted amendments to its rules and forms. The 2019 Letter notes that these developments have rendered some positions obsolete or superseded.

The accounting matters bibliography restates staff positions taken in previous letters and provides updates to those positions the staff identified for rescission, modification, or supplementation. The 2019 Letter lists those positions that have been rescinded, modified or supplemented and discusses the reasons for the change in status.

The 2019 Letter also announces a new staff position regarding Investment Company Act of 1940 Section 19(a) notice requirements. The staff believes that "good accounting practice" as used in Section 19(a) means generally accepted accounting principles. However, the staff would not object if notices are prepared using tax basis information, so long as the basis for calculating distribution sources is used consistently. Further, as income tax calculations are typically not prepared until the end of the year, registrants should ensure

the rule 19a-1 notice contains the best estimate at the time of delivery. Finally, the staff believes income tax forms provided to investment company investors, including IRS Form 1099-DIV, are not appropriate vehicles to comply with the communication requirements of Section 19(a) because they are not made contemporaneously with the distribution.

The table below identifies the positions rescinded and modified. Generally, the positions identified as modified reflect staff positions or comments that have previously been provided to registrants.

CFO Letter

Topic

Issuance Date

Status

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

IM-DCFO 1996-01

Undertaking to File Financial Statements

November 1, 1996

Rescinded

IM-DCFO 1996-06

Average Commission Rate Considerations

November 1, 1996

Rescinded

IM-DCFO 1999-06

ISB Recordkeeping Requirements

December 30, 1999

Rescinded

IM-DCFO 2001-04

Discounting Market Quotations for Large Holdings (Block Discounts)

February 14, 2001

Rescinded

IM-DCFO 2001-08

Auditor Independence Issues

February 14, 2001

Rescinded

IM-DCFO 1995-09

Financial Statement Presentation of Fee Waivers and Recapture

November 2, 1995

Modified

IM-DCFO 1997-02

Fund of Fund Considerations

November 7, 1997

Modified

IM-DCFO 1997-06

Closed-end Fund Expense Ratios – Dividend Payments

November 7, 1997

Modified

IM-DCFO 1998-04

Change in Independent Public Accountant

December 30, 1998

Modified

IM-DCFO 2001-03

Performance Verification and Auditor Consent

February 14, 2001

Modified

IM-DCFO 2019-01

BDCs – Auditor Verification of Securities Owned

March 12, 2012

Modified

IM-DCFO 2019-02

Investment Company Act Section 19(a) Notice Requirements

November 22, 2019

New

The 2019 Letter indicates that the positions described are the views of the staff and that they are not rules, regulations, guidance, or statements of the Commission, and the Commission has neither approved nor disapproved their content.

The 2019 Letter also encourages registrants and other stakeholders to let the staff know if there are changes to other staff positions that merit reconsideration.

Gregory M. Smith
Senior Director, Fund Accounting and Compliance

endnotes

[1] Letter from the Chief Accountant of the Division of Investment Management (November 22, 2019) (“2019 Letter”) *available at* <https://www.sec.gov/files/industry-comment-letter-112219.pdf>.

[2] The accounting matters bibliography is *available at* <https://www.sec.gov/investment/accounting-matters-bibliography>.

[3] Previously issued Dear CFO Letters are *available at* <https://www.sec.gov/investment/accounting-and-disclosure-information>

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.