

**MEMO# 31875**

July 30, 2019

## **ICI Submits Comment Letter on SEC Regulation S-X Fund Merger Proposal**

[31875]

July 30, 2019 TO: ICI Members SUBJECTS: Fund Accounting & Financial Reporting RE: ICI Submits Comment Letter on SEC Regulation S-X Fund Merger Proposal

On May 3, the Securities and Exchange Commission issued for public comment proposed rule and form amendments designed to tailor the financial reporting requirements for investment company acquisitions of other investment companies.<sup>[1]</sup> The proposal would add a definition of “significant subsidiary” in Rule 1-02(w) of Regulation S-X designed for investment companies. The proposal would also add new Rule 6-11 to Regulation S-X to address financial reporting for acquisitions of investment companies, including a private fund, private account or business development company. Proposed Rule 6-11 uses the proposed definition of significant subsidiary to determine whether financial statements for the acquired fund must be provided.

The Institute recently filed the attached comment letter supporting the SEC’s proposed rule and form amendments. The comment letter strongly supports elimination of the requirement to provide pro forma financial statements in certain fund mergers. The letter seeks clarification of proposed disclosures that would be required in lieu of pro forma financial statements. The letter recommends that the Commission clarify that acquired fund financial statements are not required in any Form N-CSR filing or any prospectus update filing.

The letter also supports the proposed significant subsidiary tests but recommends changing the investment threshold in the alternate income test from 5 percent of the acquired fund’s total investments to 10 percent when the test is used to determine whether the acquired fund’s financial statements must be provided. The comment letter also seeks clarification of the calculation of the absolute value of the tested subsidiary’s income under the income tests in proposed Rule 1-02(w)(2).

Gregory M. Smith  
Senior Director, Fund Accounting and Compliance

[Attachment](#)

## endnotes

[1] See Amendments to Financial Disclosures about Acquired and Disposed Businesses, Release Nos. 33-10635, 34-85765, IC-3365 (May 3, 2019) available at <https://www.sec.gov/rules/proposed/2019/33-10635.pdf>. For a summary of the proposed amendments, see ICI Memorandum No. 31769 (May 20, 2019), available at [https://www.ici.org/my\\_ici/memorandum/memo31769](https://www.ici.org/my_ici/memorandum/memo31769).

---

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.