

MEMO# 31354

August 28, 2018

SEC Adopts Changes to Regulation S-X

[31354]

August 28, 2018 TO: ICI Members SUBJECTS: Disclosure
Fees and Expenses

Fund Accounting & Financial Reporting RE: SEC Adopts Changes to Regulation S-X

The Securities and Exchange Commission recently adopted amendments to certain financial statement disclosure requirements to conform them to US Generally Accepted Accounting Principles for investment companies.[\[1\]](#) The amendments also incorporate a definition of extraordinary expenses into the fee table instructions in investment company registration forms and omit from the forms required disclosure referencing the ability to review filings in the Commission's public reference room. The amendments are effective 30 days after publication in the Federal Register.

Financial Statement Disclosures

The amendments to Rule 6-04.17 of Regulation S-X (balance sheet) omit the requirement to separately state the book basis components of net assets: accumulated undistributed investment income, accumulated undistributed net realized gains (losses), and net unrealized appreciation (depreciation) at the balance sheet date. Instead, consistent with GAAP, funds will be required to disclose total distributable earnings.[\[2\]](#)

The amendments to Rule 6-09 of Regulation S-X (statement of changes in net assets) omit the requirement to separately state the sources of distributions paid. Instead, consistent with GAAP, funds will be required to disclose the total amount of distributions paid, except that any tax return of capital must be separately disclosed.[\[3\]](#) The amendments also omit the requirement to parenthetically state the book basis amount of undistributed net investment income on the statement of changes in net assets.

In response to comments the SEC omitted Rule 6-03(c)(1)(i) of Regulation S-X which permits consolidation only with subsidiaries that are investment companies. GAAP permits consolidation of investment company subsidiaries and also consolidation of a controlling financial interest in an operating entity that provides services to the investment company.[\[4\]](#)

Registration Statement Forms

Currently the instructions to the prospectus fee table permit extraordinary expenses as defined under GAAP to be excluded from the total annual fund operating expenses included in the fee table. In January 2015, the FASB eliminated the concept of extraordinary items

and the related definition from GAAP. The Commission has adopted amendments to Form N-1A, Form N-3, Form N-4, and Form N-6 that replace the outdated reference to GAAP with a definition of extraordinary expenses. That definition is consistent with the historical GAAP definition of extraordinary items.

The Commission also amended the instructions to the six-month expense example included in the shareholder report pursuant to Item 27(d) of Form N-1A. The amendment incorporates the same definition of extraordinary expenses.

Finally, the Commission amended its registration statement forms to omit required disclosures indicating that information about the fund may be reviewed and copied at the SEC's public reference room in Washington, DC.

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endnotes

[1] *Disclosure Update and Simplification*, Release Nos. 33-10532, IC-33203 (August 17, 2018) ("Adopting Release") available at <https://www.sec.gov/rules/final/2018/33-10532.pdf>.

[2] See ASC 946-20-50-11. Funds must also provide note disclosure of the tax basis components of distributable earnings.

[3] GAAP also requires note disclosure of the tax basis of distributions paid. See ASC 946-20-50-8.

[4] See ASC 946-810-45.