

**MEMO# 30382**

November 3, 2016

# ICI Comment Letter On SEC Proposed Changes To Regulations S-X

[30382]

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TO: ICI Members SUBJECTS: Disclosure  
Fees and Expenses

Fund Accounting & Financial Reporting RE: ICI Comment Letter On SEC Proposed Changes To Regulations S-X

The SEC recently proposed amendments to certain of its disclosure requirements that may have become redundant, outdated or superseded in light of other Commission disclosure requirements, generally accepted accounting principles, or changes in information delivery methods.<sup>[1]</sup> The proposed amendments are a result of the Division of Corporation Finance's Disclosure Effectiveness Initiative. The Institute recently filed the attached comment letter on the proposed amendments. The comment letter is attached and summarized below.

## Financial Statement Disclosures

Regulation S-X currently requires registered investment companies to separately present three components of distributable earnings on the balance sheet: 1) accumulated undistributed net investment income, 2) accumulated undistributed net realized gains (losses) on investment transactions, and 3) net unrealized appreciation (depreciation) in the value of investments. Regulation S-X requires these amounts to be presented on a book basis. GAAP for investment companies requires these three components to be aggregated and presented as a single line item: distributable earnings. GAAP also requires the components of distributable earnings to be disclosed on a tax basis in a note to the financial statements, so that investors can determine the amount of accumulated undistributed earnings they could potentially receive in the future as taxable distributions.

The proposal would amend Rule 6-04.17 to omit the requirement to separately disclose the three components of distributable earnings, and instead require disclosure of the total distributable earnings on the balance sheet. The Proposal would also delete the requirement in Rule 6-09.7 for parenthetical disclosure of undistributed net investment income, on a book basis, in the statement of changes in net assets. The ICI comment letter supports the proposed changes to the Regulation S-X requirements for the balance sheet and the statement of changes in net assets, arguing that the GAAP required tax basis information on distributable earnings better informs investors about the amount of accumulated undistributed earnings they could potentially receive in the future as taxable distributions.

The comment letter recommends that the Commission make similar changes to the disclosure of distributions paid in the statement of changes in net assets. Specifically, Rule 6-09.3 requires funds to separately disclose distributions paid to shareholders from net investment income and realized gains. GAAP, however, requires distributions paid to be disclosed as a single line item. The ICI letter recommends that the Commission conform the presentation of distributions paid in the statement of changes in net assets to GAAP, arguing that tax basis information on distributions paid would better inform investors, and would simplify compliance without significantly altering the total mix of information available to shareholders.

## **Registration Statement Disclosures**

Form N-1A enables funds to exclude “extraordinary expenses” as determined under GAAP from annual fund operating expenses when preparing the prospectus fee table. The proposal notes that the FASB recently eliminated the concept of extraordinary expenses from GAAP. The proposal would define extraordinary expenses in Item 3 of Form N-1A so that funds could continue to exclude such expenses from their expense ratio in the fee table, providing investors with a better understanding of the ongoing level of expense associated with an investment in the fund. The Form would continue to require footnote disclosure of expenses including extraordinary expenses, if material. The comment letter supports the proposed definition of extraordinary expenses and its incorporation into the instructions to the prospectus fee table.

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## [Attachment](#)

### **endnotes**

[1] See [ICI Memorandum No. 30046](#) (July 18, 2016).

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