

MEMO# 33411

April 1, 2021

SEC Issues Dear CFO Letter for Investment Companies

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TO: ICI Members SUBJECTS: Audit and Attest

Closed-End Funds

Fund Accounting & Financial Reporting RE: SEC Issues Dear CFO Letter for Investment Companies

On March 30, 2021 the staff of the Chief Accountant's Office in the Division of Investment Management issued a letter to investment company registrants addressing certain accounting, auditing, financial reporting and disclosure matters.[\[1\]](#) At the same time the staff updated the accounting matters bibliography posted to the SEC's website to reflect the staff positions described in the letter.[\[2\]](#)

The 2021 Letter rescinds IM-DCFO 1994-02 relating to valuation and auditing of certain investments in response to Commission adoption of rule 2a-5.[\[3\]](#) IM-DCFO 1994-02 is withdrawn as of September 8, 2022, the compliance date for rule 2a-5. The 2021 Letter modifies IM-DCFO 1997-02 relating to valuation of foreign investments in response to Commission adoption of rule 2a-5. The 2021 Letter omits from the staff position references to ASRs 113 and 118 and substitutes a reference to the adopting release for rule 2a-5 and ASC Topic 820.

The 2021 Letter modifies two staff positions in response to the SEC's adoption of rule and form amendments intended to improve financial statements relating to acquisitions and dispositions of businesses.[\[4\]](#) The 2021 Letter modifies IM-DCFO 1995-11 relating to presentation of pro forma fee and capitalization information where multiple funds are merging. The 2021 Letter modifies IM-DCFO 2001-6 relating to Form N-14 filings under rule 488 of the 1933 Act. The modification omits a reference to pro forma financial statements, as those statements are no longer required in connection with a fund merger as a result of the May 2020 adoption of Regulation S-X rule 6-11.

The 2021 Letter modifies IM-DCFO 1997-06 addressing closed-end fund preferred dividends. Preferred dividends paid on preferred shares characterized as equity should be excluded from the financial highlights expense ratio but included as expense in the Form N-2 Item 3 fee table. Alternatively, preferred dividends paid on preferred shares characterized as a liability should be included as expense in both the financial highlights

expense ratio and the fee table. The staff position indicates that funds may present additional expense ratios in the financial highlights reflecting the treatment of dividends paid on preferred shares provided they are disclosed in a footnote to the table.

The 2021 Letter modifies IM-DCFO 2020-01 addressing whether an investment adviser may satisfy the requirements of the audit exception for limited partnerships that are subject to an annual audit in accordance with rule 206(4)-2(b)(4) under the Investment Advisers Act by distributing combined financial statements. The modified position revises the factors the staff believes an adviser should consider when assessing whether combined financial statements may be used to satisfy the requirements of the audit exception.

The 2021 Letter articulates a new staff position indicating that an insurance company may be able to transition from providing depositor financial statements prepared under US GAAP to those prepared under Statutory Accounting Principles in their filings on Forms N-3, N-4, N-6 and S-1. IM-DCFO-2021-01 reminds registrants that the historical periods to be presented under Regulation S-X may differ from those required by state regulators and expresses the view that presentation of historical information on a consistent basis is preferable for investors.

The 2021 Letter rescinds IM-DCFO 1997-03 relating to designation of segregated assets on the fund's records in connection with senior security obligations as a result of the adoption of rule 18f-4.^[5] IM-DCFO 1997-03 is rescinded as of August 19, 2022, the compliance date for rule 18f-4.

The 2021 Letter rescinds IM-DCFO 1998-07 relating to financial data schedules filed by registrants that file Forms N-4 and S-6. Financial data schedules are no longer required.

Gregory M. Smith
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endnotes

[1] Letter from the Chief Accountant of the Division of Investment Management (March 30, 2021) (2021 Letter) *available at* <https://www.sec.gov/files/dear-cfo-letter-from-im-chief-accountant-033021.pdf>.

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

[3] Good Faith Determination of Fair Value, Release No. IC-34128 (December 3, 2020) *available at* <https://www.sec.gov/rules/final/2020/ic-34128.pdf>.

[4] Amendments to Financial Disclosures About Acquired and Disposed Businesses, Release No. IC-33872 (May 20, 2020) *available at* <https://www.sec.gov/rules/final/2020/33-10786.pdf>.

[5] Use of Derivatives by Registered Investment Companies and Business Development Companies, Release No. IC-34084 (November 2, 2020) *available at* <https://www.sec.gov/rules/final/2020/ic-34084.pdf>.

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