



AICPA Investment Companies Expert Panel

Conference Call highlights

January 21, 2020

I. AICPA/Administrative:

1. The Expert Panel (EP) November 2019 meeting highlights for administrative and restricted cash items have been posted; remaining portion is being finalized. January 2019 meeting highlights have been updated for restricted cash agenda item.
2. Illustrative draft audit opinion for business development companies (BDCs) is being reviewed by regulators.
3. The EP considered the AICPA Audit and Accounting Guide *Investment Companies* (the Guide) matters for 2020 conforming changes cycle.

II. Accounting/Reporting Issues:

1. The EP discussed whether the EP members plan to comment on the [SEC proposed rule regarding use of derivatives by registered investment companies and business development companies](#), including on potential implications for calculating and auditing the asset coverage ratio.

III. SEC Staff Update: Disclaimer

The following comments and observations were compiled by the AICPA Investment Companies Expert Panel and AICPA staff and are not authoritative positions or interpretations issued by the SEC or its staff. The comments and observations were not transcribed by the SEC or its staff and have not been considered or acted upon by the SEC or its staff. Accordingly, these comments and observations do not constitute a statement of the views of the SEC or its staff.

1. Commission Update:

- The SEC staff highlighted several projects from the Chairman Clayton's [Testimony on "Oversight of the Securities and Exchange Commission" Before the U.S. Senate Committee on Banking, Housing, and Urban Affairs](#), December 10, 2019
- [SEC Agency Rule List](#) for Fall 2019 included, among others, proposed rules on amendments to auditor independence rules, derivatives, custody rules for investment advisers, investment company summary shareholders report and update to marketing rules

for investment advisers; final stage rules included but not limited to, exchanges-traded funds, enhanced disclosures for separate accounts, and offering reform for BDCs.

- The SEC staff noted continuous Commission’s focus on independence as evidenced in
 - [Statement in Connection with the 2019 AICPA Conference on Current SEC and PCAOB Developments](#) by Sagar Teotia, Chief Accountant
 - [Remarks before the 2019 AICPA Conference on Current SEC and PCAOB Developments](#) by Vassilios Karapanos, Associate Chief Accountant, Office of the Chief Accountant, in particular on coordination between audit committees, audit firms, and management to ensure compliance with auditor independence rule
 - [Statement on Role of Audit Committees in Financial Reporting and Key Reminders Regarding Oversight Responsibilities](#) by Chairman Jay Clayton, Sagar Teotia, Chief Accountant, William Hinman, Director, Division of Corporation Finance, in particular on the shared responsibility for compliance with auditor independence rules of the audit firm, the issuer, and its audit committee

2. Division of Investment Management Update:

- [Keynote Address — 2019 ICI Securities Law Developments Conference](#) by Dalia Blass, Director, Division of Investment Management, December 3, 2019
- [Remarks to the Greater Cincinnati Mutual Fund Association](#) by Alison Staloch, Chief Accountant, Division of Investment Management, December 3, 2019
- The Commission formed a new advisory panel [Asset Management Advisory Committee \(AMAC\)](#) to provide diverse views from retail and institutional investors, large and small funds, and other industry participants.

3. Financial Statement Review:

The SEC staff provided the following financial statement review comments:

- *Sub-advisory fees and consistency between annual report and prospectus* – The SEC staff noted that certain funds describe relationships with sub-advisers in their registration statements (Item 19 of N-1A) and the disclosure will often include amounts paid by the fund or adviser to a sub-adviser. The SEC staff has seen instances where the sub-advisory arrangement is not described in the notes to the financial statements, where facts and circumstances might warrant such disclosure, or is significantly inconsistent with the description in the prospectus. The SEC Staff reminds registrants that significant elements of the arrangement may warrant disclosure in the notes to the financial statements, depending on facts and circumstances.
- *Schedule of investments (SOI) holdings depiction for international funds* – The SEC staff noted instances where an international fund’s SOI categorized investments by country but did not include indications of industry concentration when it appears such concentration was present in the portfolio. The SEC staff reminded the registrants of the following relevant guidance:
 - FASB ASC 825-10-50 regarding concentration of credit risk, and
 - Paragraph 7.28 of the guide that refers to FASB ASC 825-10-50 regarding significant concentration of credit risk, and “for example, an international fund that categorizes its investments by industry or geographic region should also report a summary of its investments by country, if such concentration is significant.”

The SEC staff encouraged all registrants to evaluate their disclosures particularly if a related SOI shows a significant concentration in a single country but does not include information to evaluate the concentration in particular industries, or vice-versa in situations where an international fund has categorized investments by industry yet there is significant concentration in a single country.

4. IM 2019 Dear CFO Letter:

Consistent with Chairman Clayton’s [Statement regarding SEC Staff Views](#) made on September 13, 2018, the IM staff reviewed prior guidance and staff statements, including eight Dear CFO letters

(issued between 1994 and 2001) covering over 50 different topics, for continued relevance. The IM staff issued a new [Dear CFO Letter from the Division of Investment Management](#) on November 22, 2019, which rescinds, modifies, and supplements prior positions, as well as introduces a new position. The letter, among other things, includes rationale for why certain positions were rescinded and how certain positions were modified. It also creates an identifier for each position and an [Accounting Matters Bibliography](#), accumulating all existing and current Dear CFO Letter positions in one place.

IM will continue to review whether additional positions, or further rescissions or modifications to prior positions, are necessary. While the IM Division has engaged in an initial review of prior Staff statements to identify positions that require modification, rescission, or supplementation as a result of market, regulatory, or other developments, the IM staff recognizes there may be additional questions from the industry in the future that may require further updates and encourages registrants and other stakeholders to engage as those questions arise.

5. Policy Initiatives:

The following proposed rules are currently open for comment:

- [Use of Derivatives by Registered Investment Companies and Business Development Companies; Required Due Diligence by Broker-Dealers and Registered Investment Advisers Regarding Retail Customers' Transactions in Certain Leveraged/Inverse Investment Vehicles](#) (comment period closes March 24, 2020)
- [Amendments to Rule 2-01, Qualifications of Accountants](#) (comment period closes March 16, 2020)

6. OCIE Update:

The Office of Compliance Inspections and Examinations issued its [OCIE 2020 Examinations Priorities](#).