

SEC Staff Updates Prior Accounting Guidance and Publishes Accounting Matters Bibliography

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On November 27, 2019, the Chief Accountant of the SEC's Division of Investment Management issued a "Dear CFO" letter—the first in nearly 20 years—to update certain accounting guidance appearing in prior [Dear CFO letters](#) that has become obsolete or been superseded or mooted by changes in the federal securities laws or U.S. generally accepted accounting principles since the last Dear CFO letter was issued in 2001. In the letter, the Chief Accountant also stated that the practice of issuing Dear CFO letters was being revived, to provide a method of conveying staff views to all registrants consistently and transparently.

Also on November 27, 2019, the Office of the Chief Accountant of the SEC's Division of Investment Management published a new Accounting Matters Bibliography, which is intended to serve as an evergreen source for the staff's current positions on accounting matters relevant to investment company registrants as expressed in Dear CFO letters. The bibliography will be updated to reflect new and changed staff positions over time.

The Dear CFO letter noted one new staff position, the details of which are set forth in the Accounting Matters Bibliography, relating to Section 19(a) of the Investment Company Act of 1940. Section 19(a) prohibits a fund from making a distribution from any source other than the fund's net income "determined in accordance with good accounting practice" unless the payment is accompanied by a written statement that adequately discloses the sources of the payment. The staff's view is that good accounting practice in this case means financial information prepared in accordance with U.S. GAAP. But the staff would not object if the tax basis is used to prepare that financial information instead, provided the basis for calculating the sources of the distribution is used consistently. In addition, the staff expressed the view that funds should not use tax forms provided to investors, including IRS Form 1099-DIV, to comply with Section 19(a) because these forms are not delivered contemporaneously with each distribution.

The November 27, 2019 Dear CFO letter is available [here](#).

The Accounting Matters Bibliography is available [here](#).

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