



Asset management accounting matters

Overview

Amendments to Article 12

Amendments to the general form and content of financial statements

Disclosures of securities lending activities

Parting thoughts

Contact information

Impact of Financial Reporting Guidance for Registered Funds and BDCs – Part I of III

Overview

On October 13, 2016, the SEC issued a final rule, [*Investment Company Reporting Modernization*](#), which modernizes the reporting and disclosure of information for certain investment companies regulated under the Investment Company Act of 1940 (the 1940 Act). The final rule release includes amendments to Articles 6 and 12 of Regulation S-X (the Amendments) that prescribe the form and content of financial statements included in the registration statements and shareholder reports for registered investment companies and business development companies.

These Amendments will:

- Standardize disclosures relating to open futures contracts, open forward foreign currency contracts, and open swap contracts
- Modify disclosure requirements for purchased and written option contracts
- Update disclosures for other investments and investments in and advances to affiliates
- Amend rules addressing the general form and content of fund financial statements.

The compliance date for the Amendments is **August 1, 2017**. Our understanding of the views of the SEC staff is that financial statements filed with the SEC should comply with the Amendments commencing with reporting periods ending on or after August 1, 2017.

The rules described herein represent the amended rules, except where specified otherwise.

During this three-part series, we will discuss the expected impact of the Amendments to financial reporting for registered investment companies and business development companies (BDCs).

Part I of this series provides an overview of the amendments to Article 12, as well as the amendments to the general form and content of financial statements in Article 6.



Amendments to Article 12

A primary objective of the Amendments is to improve the clarity and consistency of disclosures concerning derivative instruments. Although the current rules address general disclosure requirements for portfolio holdings, they do not prescribe standardized disclosures for derivatives other than for written option contracts. To enhance comparability and transparency in reporting derivatives for fund financial statements, the Amendments require new schedules for reporting open futures contracts, open forward foreign currency contracts, and open swap contracts. In addition, the Amendments include new reporting requirements and clarifying changes to Rules 12-12 through 12-12B, 12-13D and 12-14.

The following table summarizes the changes to the schedules required under Article 12:

Current rules	New rules
12-12 (Investments in securities of unaffiliated issuers)	12-12 (Investments in securities of unaffiliated issuers)
12-12A (Investments – securities sold short)	12-12A (Investments – securities sold short)
12-12B (Open option contracts written)	12-13 (Open option contracts written)*
12-12C (Summary of schedule of investments in securities of unaffiliated issuers)	12-12B (Summary of schedule of investments in securities of unaffiliated issuers)*
12-13 (Investments other than securities)	12-13A (Open futures contracts)* 12-13B (Open forward foreign currency contracts)* 12-13C (Open swap contracts)* 12-13D (Investments other than those presented in 12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B, and 12-13C)*
12-14 (Investments in and advances to affiliates)	12-14 (Investments in and advances to affiliates)

*Denotes new or renumbered schedules under Article 12

These changes will be discussed in more detail in Parts II and III of this series.



Amendments to the general form and content of financial statements

The Amendments to Article 6 update certain rules governing the form and content of financial statements to conform to the amendments to Article 12, as well as to update other financial statement requirements.

Application to business development companies

Although BDCs comply with the periodic reporting requirements of the Securities Exchange Act of 1934, BDCs are subject to regulation under the 1940 Act. To clarify the application of reporting guidance to BDCs, Article 6 is amended to refer to both registered investment companies **and business development companies**, including guidance for presenting consolidated and combined financial statements. However, these technical amendments do not change existing requirements for BDCs.

Presentation of schedules required under Article 12

Some funds interpret current Rule 6-10(a) as to permit the presentation of information required under Article 12 within the notes to the financial statements. However, the SEC expressed its belief that all schedules required by Rule 6-10 (including those required under Article 12) should be presented more prominently within the fund's financial statements. To improve comparability in disclosures between funds, Rule 6-10(a) is amended to clarify that all schedules required by Rule 6-10 should be presented within a fund's schedule of investments and not in the notes to the financial statements.

Tax basis disclosures

Current Rules 12-12, 12-12C, and 12-13 contain instructions to include the following disclosures based on cost used for federal income tax purposes:

- Aggregate gross unrealized appreciation for securities where value exceeds tax cost
- Aggregate gross unrealized depreciation for securities where tax cost exceeds value
- Net amount of unrealized appreciation or depreciation
- Aggregate cost of securities for federal income tax purposes

The SEC considered expanding these requirements to other investment categories but was persuaded that tax basis disclosures relating to the portfolio as a whole provide sufficient information to investors. As a result, the Amendments move these disclosure requirements from Article 12 to

Balance sheet presentation

Rules 6-03 and 6-04 include conforming changes to include the types of investments and derivatives reported in accordance with Article 12. In particular, the balance sheet captions for **other investments** (for both assets and liabilities) and **deposits for securities sold short and other investments** are expanded to separately state amounts for:

- Futures contracts
- Forward foreign currency contracts
- Swap contracts
- Investments – other than those presented in accordance with Rules 12-12 through 12-13C.

Although the schedules required under Article 12 may result in separate presentation of asset and liability derivative positions, Rule 6-04 is not intended to require gross presentation in the balance sheet where netting of amounts is permitted under U.S. GAAP.

The Amendments also eliminate current Rule 6-04.4, which requires a caption for **total investments** under the assets section of the balance sheet. The SEC recognized that derivatives reported under Rules 12-13A through 12-13D may include both assets and liabilities and that presenting such totals under the assets section could be misleading to investors.

Statements of operations presentation

Rule 6-07.1 will require separate disclosure of investment income from noncash sources, such as noncash dividends and payment-in-kind interest, when such income exceeds 5 percent of total investment income.

Rules 6-07.7(a) and (b) conform the statement of operations captions for both **net realized gain (loss)** and **net increase (decrease) in unrealized appreciation (depreciation)** to include the following categories of derivatives presented in accordance with Rules 12-13A through 12-13C:

- Option contracts written
- Securities sold short
- Futures contracts
- Forward foreign currency contracts
- Swap contracts.

Disclosure of written options activity

Current Rule 6-07.7(c) requires disclosures of written options activity during the period. The SEC noted that these disclosures are generally duplicative of those required by FASB ASC Topic 815 and therefore amended Rule 6-07.7(c) to eliminate this requirement.



Disclosures of securities lending activities

The SEC proposed to require certain disclosures related to a fund's securities lending activities to be included in the financial statements. However, the SEC instead adopted these changes as amendments to the Statements of Additional Information included in Forms N-1A and N-3 and in Form N-CSR (for closed-end funds only). These form amendments will require the following information related to a fund's securities lending activities for the most recent fiscal year:

- Gross income from securities lending activities
- Amount of fees and compensation paid to service providers related to securities lending activities (by certain enumerated types and in the aggregate)
- Net income from securities lending activities
- A description of services provided to the fund by the securities lending agent.

The compliance date for the amendments to Forms N-1A, N-3, and N-CSR regarding securities lending activities is also **August 1, 2017**.



Parting thoughts

We expect the standardized disclosures and conforming changes provided by the Amendments will improve the consistency in reporting the nature and risks associated with a fund's portfolio holdings, particularly for derivative instruments. Although many funds may have adopted disclosure practices that are consistent or similar to the amended requirements, we recommend that funds review their financial reporting systems and internal controls to ensure that they have adequate reporting processes to comply with the requirements upon the compliance date.



Contact information

For more information on this alert, please contact [Timothy Jinks](#), [Rich Sumida](#), [Eric Goldberg](#), or one of our Asset Management Audit professionals.

**National Asset
Management
Audit Leader**

Troy Butts

tbutts@kpmg.com

214-840-2107

**National Leader
Public Investment
Management**

Sean McKee

smckee@kpmg.com

817-339-1220

**National Audit
Industry Leader
Investment Management**

Brent Oswald

bdoswald@kpmg.com

612-305-5685



kpmg.com/socialmedia



[Privacy](#) | [Legal](#)

You have received this message from KPMG LLP. If you wish to unsubscribe from Asset management accounting matters, please [click here](#). If you wish to unsubscribe from all KPMG communications, please [click here](#).

KPMG LLP, 3 Chestnut Ridge Road, Montvale, NJ 07645

© 2017 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. NDPPS 678488

The KPMG name and logo are registered trademarks or trademarks of KPMG International.