October 5, 2026

FAQs – Seed Capital Financial Statements

Background

This Frequently Asked Questions ("FAQ") document was developed to address recurring industry questions related to seed capital financial statements for registered investment companies ("RICs") and business development companies ("BDCs"). It was created as an educational reference to consolidate common financial reporting considerations that arise during the fund formation and registration process, including matters related to required financial statements, note disclosures, organization and offering costs, timing requirements, and practical application under common fact patterns. The purpose of this document is to provide industry participants with a practical resource that promotes greater consistency in understanding and evaluating seed capital financial statement requirements under applicable SEC rules and regulations and U.S. generally accepted accounting principles ("U.S. GAAP"), while recognizing that accounting conclusions and disclosures must ultimately be evaluated based on each registrant's specific facts and circumstances.

Disclaimer

This FAQ is intended solely as an informational resource and does not constitute legal, accounting, tax, regulatory, or auditing advice, nor does it establish or prescribe authoritative guidance. Consistent with Investment Company Institute ("ICI") anti-trust policies and procedures, all decisions related to financial statement preparation, accounting conclusions, disclosure practices, and regulatory filings remain the sole responsibility of each member firm and should be made in consultation with management, independent auditors, legal counsel, and other professional advisers, as appropriate. Nothing contained in this document should be interpreted as an endorsement by ICI or participating firms of any specific accounting treatment, disclosure approach, or regulatory interpretation. The information presented reflects industry discussion and understanding as of October 5, 2026, and may be subject to change based on future regulatory, accounting, or interpretive developments.

Frequently Asked Questions

1. What are the seed capital requirements[1] for registered investment companies (RICs) and business development companies (BDCs)?

RICs filing registration statements on Form N-1A or Form N-2[2] must have financial statements with at least $100,000 in net assets in compliance with Section 14(a) of the 1940 Act.[3]

As BDCs are not subject to Section 14 of the 1940 Act,[4] they do not have minimum seed capital requirements; therefore, the financial statements included in a BDC's initial registration statement may have negative equity if, for example, the BDC bears organization expenses and/or offering costs.

The 1940 Act does not have a requirement for a fund registering *only* under the 1940 Act to include seed capital financial statements in its 1940 Act initial registration statement.

2. What are the typical core financial statements included in audited seed capital financial statements and when should audited[5] seed capital financial statements be dated?

Typically, seed capital financial statements are limited to a statement of assets and liabilities and potentially a statement of operations, which is consistent with the requirements of Items 25 and 26 of Schedule A of the 1933 Act.

For a RIC or BDC that prepares seed capital financial statements and files an initial registration statement on Form N-1A or Form N-2, Item 25 of Schedule A of the 1933 Act

---

[1] Items 25 and 26 of Schedule A of the Securities Act of 1933, as amended (the "1933 Act"), prescribe inclusion of financial statements in the registration statement of a fund registering under the 1933 Act. Additionally, a fund registering under the Securities Exchange Act of 1934, as amended (the "1934 Act"), on Form 10, as prescribed in Item 15 of that form, must file its financial statements as part of its registration statement. This is not intended to capture all federal and state legal and regulatory requirements.

[2] To register under both the Investment Company Act of 1940, as amended (the "1940 Act"), and the 1933 Act, open-end funds use Form N-1A and closed-end funds and BDCs use Form N-2.

[3] As noted by the Chief Accountant of the SEC's Division of Investment Management in Dear CFO position 1994-03, the staff has interpreted Section 14(a)(2) of the 1940 Act generally to permit a new series of a fund to make a public offering of securities without having at least $100,000 of net worth (i.e., new portfolios of existing registrants do not need to be seeded as long as there is at least $100,000 in another portfolio) as long as an "audited balance sheet" is in the registration statement.

[4] Section 59 of the 1940 Act, which incorporates the sections of the 1940 Act that apply to a BDC in the same manner as a registered closed-end fund, does not include Section 14(a).

[5] A registrant may consider consulting with the staff from the Chief Accountant's Office of the SEC's Division of Investment Management to discuss whether unaudited financial statements or other financial information should also be included in an initial registration statement or amended registration statement when unique timing considerations apply.

requires an audited balance sheet (i.e., a statement of assets and liabilities) as of a date not more than one year prior to the filing of the registration statement.[6]

Item 26 of Schedule A of the 1933 Act requires an audited profit and loss statement (i.e., a statement of operations) for the latest fiscal year and two preceding fiscal years, year by year. If the issuer has been in business for less than three years, the statement of operations is required to be presented for the time the issuer has been in actual business, year by year.[7]

A private BDC that files its initial registration statement on Form 10 is required, under Item 13, to provide audited seed capital financial statements as of a date within 135 days of the date of the filing pursuant to Rule 3-01(a) of Regulation S-X.

Given the requirements of the 1933 Act and Form 10, a statement of operations should be included in seed capital financial statements if there is any operating activity of the investment company, including if: (1) the investment company bears its organization costs (e.g., the investment company pays the vendors directly or reimburses the adviser/sponsor for amounts that were already paid to vendors) or (2) the investment company bears its organization costs, but the investment company will be reimbursed for its organization costs by its adviser/sponsor in accordance with a reimbursement or excess expense plan.[8] However, if the adviser/sponsor elects to bear the organization costs on behalf of the investment company (i.e., the adviser/sponsor directly pays the vendors on behalf of the investment company and will never seek reimbursement from the investment company), the SEC staff has not objected if a statement of operations is excluded from the seed capital financial statements.[9]

Additionally, in Dear CFO position 2020-02, the SEC staff stated it would not recommend enforcement action to the Commission if an investment company in its financial statements filed on Form N-1A, Form N-2 or Form 10:

---

[6] Item 25 of Schedule A of the 1933 Act also requires a fund to file an unaudited balance sheet as of a date within 90 days of the filing of the registration statement if the audited balance sheet is dated more than 90 days prior to the filing of the registration statement.

[7] The number of periods to be presented in a statement of operations would vary based on facts and circumstances, including filer status, as applicable (e.g., emerging growth company), and whether the entity is registering as a RIC or a BDC.

[8] Certain funds may incur organization or offering costs between the date of the seed capital financial statements and the date operations commence. For example, if the statement of assets and liabilities in the seed capital financial statements was dated July 31 and a fund commences operations on November 30 and incurs organization and offering costs during the period from August 1 to November 30, an adjustment would be made to the November 30 opening capital balance in the financial statements prepared subsequent to the seed capital financial statements to account for such activity, along with appropriate disclosures.

[9] Additionally, see the SEC's Division of Corporation Finance Financial Reporting Manual (FRM) section 7210.1, Reflect All Costs of Doing Business, which states: "Organizational and offering costs paid for by a related party should be reflected in the financial statements of the registrant where those costs will be directly or indirectly reimbursed. [SAB Topic 5D] In the absence of an obligation or intent to reimburse directly or indirectly, the staff will not insist on inclusion of these amounts in the issuer's financial statements."

- Includes only a statement of assets and liabilities if the investment company has received only initial seed capital as of the date of the financial statements
- Includes only a statement of assets and liabilities and a statement of operations if the investment company has incurred only organization and offering expenses as of the date of the financial statements

Other financial statements may need to be included to the extent additional activity beyond the above has occurred in the entity. For example, if a RIC or BDC accepted external capital and/or made an investment prior to the date of the seed capital financial statements, a statement of changes in net assets, a schedule of investments, financial highlights and a statement of cash flows (if not exempted under ASC 230-10-15-4c) may be required to be included.[10]

3. Generally, what disclosures are made in the notes to seed capital financial statements?

The seed capital financial statements should also include disclosures in the notes to the financial statements to conform the financial statements to U.S. generally accepted accounting principles (U.S. GAAP) as well as SEC rules and regulations. Such disclosures may include the following as applicable, among others:

1) Description of the Fund;
2) Significant accounting policies;
3) Organization and offering costs, including any amounts due to/from related parties and/or amounts paid for by the adviser;
4) Excess expense plan description, including any potential recoupments of waived or reimbursed expenses by the adviser;
5) Commitments and contingencies;
6) Significant related party agreements and/or agreements with service organizations;
7) Subsequent events; and
8) Any other required disclosures based on the activity of the entity.

4. For a fund to disclose the name of any service provider(s) in the notes to its audited seed capital financial statements, must there be an executed contract between the fund and the service provider(s)?

Yes. Also, independent public accountants should ensure they obtain the executed contract(s) before issuing the audit opinion.

[10] See Dear CFO position 2020-01 for additional commentary from the SEC staff on determining a fund's commencement of operations date and what financial statements are required for the fund's annual and periodic filings once operations have commenced.

5. **Can a statement of operations be presented in seed capital financial statements for a period longer than 12 months?[11]**

   Item 26 of Schedule A of the 1933 Act uses the phrase "year by year" for a profit and loss statement for multiple fiscal years, which indicates that the length of an individual period on the statement of operations should not exceed 12 months.[12] For seed capital financial statements, if the period from the date of inception to the date of the statement of assets and liabilities exceeds 12 months, the statement of operations should include the following 2 columns of reported activity: (1) for the period from the date of inception to the fiscal year-end date and (2) for the period from the first day of the next fiscal year to the statement of assets and liabilities date.

   Additionally, Item 25 of Schedule A of the 1933 Act only requires an audited balance sheet as of a date not more than one year prior to the filing of the registration statement. When multiple periods are presented for the statement of operations, there is not a requirement within the 1933 Act to file multiple audited balance sheets; however, it would be permissible for a registrant to present multiple audited balance sheets.

6. **For an entity whose operations have not yet commenced, how should a statement of operations be presented in seed capital financial statements if the financial statement period spans a period of less than 12 months but crosses a fiscal year-end?**

   For an entity that has not yet commenced operations and has a statement of operations that spans a period of less than 12 months, but crosses a fiscal year-end, it is acceptable to present the statement(s) of operations as either (a) two statements which would show the following two columns of reported activity: (1) for the period from the date of inception to the fiscal year-end date; and (2) for the period from the first day of the next fiscal year to the statement of assets and liabilities date, or (b) one statement from the date of inception to the statement of assets and liabilities date.

7. **What are the journal entries and how should a fund present organization expenses and offering costs in its seed capital financial statements under the example fact patterns included below?**

   Note: These four fact patterns included below represent common scenarios for funds, but they are not an exhaustive list of all possible scenarios. Registrants should tailor

---

[11] Registrants with questions on financial statement considerations related to the period from the date of inception to the date of the seed capital financial statements are advised to reach out to the SEC staff for guidance (e.g., whether a statement of operations is required in seed capital financial statements for the period from the date of inception to the date of the statement of assets and liabilities, or if the registrant can present seed capital financial statements for a shorter period if the period from the date of inception to the date of the statement of assets and liabilities exceeds one year).

[12] See also the SEC's Division of Corporation Finance Financial Reporting Manual section 1365.3, Maximum Audited Reporting Period, which states: "No audited reporting period, under any circumstances, may exceed 12 months for domestic issuers."

accounting considerations to their unique facts and circumstances. These fact patterns assume that operations have not commenced before the date of the seed capital financial statements; if the fund has commenced operations before the date of the seed capital financial statements, additional considerations may apply (e.g., considerations related to amortization of deferred offering costs, discussed below). Furthermore, these fact patterns assume that shares were sold to the seed investor. Finally, in these fact patterns, the term "closed-end fund" includes both registered closed-end funds and BDCs.

***Fact Pattern 1**:*

Organization expenses of $20 and offering costs of $12 of an open-end fund or a closed-end fund with a continuous offering period are initially paid for by the adviser with the expectation that the fund will repay the adviser once capital is received (which is probable as of the date of the seed capital financial statements[13]), and the fund will never be reimbursed by the adviser because there is no expense reimbursement and limitation agreement.

Journal entries

DR. Organization expenses	$20	
CR. Due to adviser[14]		$20
DR. Deferred offering costs (asset)[15]	$12	
CR. Due to adviser[14]		$12

Statement of assets and liabilities

[13] Per the AICPA Audit and Accounting Investment Companies Guide, Chapter 8 – Organization and Offering Costs section: "In accordance with FASB ASC 720-15-25-1, organization costs should be charged to expense as they are incurred. In certain instances, the fund's registration statement or offering agreement may indicate that the investment company does not incur the costs until a future event occurs. In such instances, such costs should be recorded when it is probable that the investment company will incur such costs, in accordance with FASB ASC 450-20."

[14] If, in a different fact pattern, as of the date of the statement of assets and liabilities, any organization expenses and/or offering costs have been incurred by the fund but were not yet paid by the adviser, a liability to the vendor(s) for the unpaid amount should be recorded and presented on the statement of assets and liabilities.

[15] Upon the commencement of operations, the fund would amortize the deferred offering costs asset into expense over 12 months on a straight-line basis in accordance with FASB ASC 946-20-35-5 and would Debit offering cost expense and Credit deferred offering costs (asset). If the offering period is shorter than 12 months, the fund would amortize the deferred offering cost asset into expense on a straight-line basis over the offering period.

Offering costs: Present a deferred asset for offering costs and a liability to the adviser in accordance with FASB ASC 946-20-25-6.

Organization expenses: Present a liability to the adviser.

Statement of operations[16]

Present organization expenses as an expense.

Fact Pattern 2*:*

Organization expenses of $20 and offering costs of $12 incurred by an open-end fund or a closed-end fund with a continuous offering period were initially paid for by the adviser on behalf of the fund and are subject to an expense limitation and reimbursement arrangement (ELRA). Pursuant to the ELRA, the adviser is required to reimburse the fund if the fund's annualized operating expenses exceed an expense cap. Further, the expense reimbursements are subject to a 3-year recoupment plan whereby the adviser may recoup the expense reimbursements if the fund operates under the expense cap in a future period. The fund concludes that as of the date of the statement of assets and liabilities, recoupment by the adviser of the organization expenses[17] from the fund isn't probable and estimable and therefore, no liability for the recoupment should be recorded pursuant to FASB ASC 946-20-25-4.[18]

Journal entries

DR. Organization expenses	$20

[16] If the fund has commenced operations before the date of the seed capital financial statements (e.g., if the fund accepted external capital or made an investment), the amortization of deferred offering costs would begin on the date of the commencement of operations (i.e., prior to the date of the seed capital financial statements), and such amortized offering costs would be presented on the statement of operations.

[17] Since offering costs have been incurred but not yet been expensed by the fund and therefore have not been reimbursed by the adviser under the ELRA, the fund does not need to consider whether recoupment of offering costs by the adviser from the fund is probable as of the date of the statement of assets and liabilities.

[18] If, in a different fact pattern, the fund has entered into an ELRA with the adviser under which the adviser will pay for the organization and offering costs until a defined offering threshold has been triggered (e.g., the adviser will pay for organization and offering costs in excess of $100,000 if the aggregate proceeds from the offering have not exceeded $10 million), the fund would similarly assess whether a liability for reimbursed expenses should be recorded based on the criteria in ASC 946-20-25-4.

CR. Due to/from adviser[19]			$20
DR. Due to/from adviser	$20		
CR. Reimbursement of organization expenses (contra expense)			$20
DR. Deferred offering costs (asset)[20]	$12		
CR. Due to/from adviser[21]			$12

Statement of assets and liabilities

Offering costs: Present a deferred asset for offering costs and a liability to the adviser in accordance with FASB ASC 946-20-25-6.

Organization expenses: Present a due to adviser for the organization expenses and due from adviser for the reimbursement of organization expenses.

Due to/due from adviser: Registrants should consider whether the due to adviser and due from adviser line items can be offset in accordance with ASC 210-20 *Balance Sheet—Offsetting*.

Note: As recoupment is not deemed probable and estimable as of the date of the statement of assets and liabilities, no liability to the adviser for expense recoupment would be presented on the statement of assets and liabilities. However, since the recoupment is a contingent liability, the fund should include a commitments and contingent liabilities line item on the statement of assets and liabilities in accordance with Rule 6-04.15 of Regulation S-X, with a reference to the financial statement footnote that discloses information about any commitments and contingent liabilities.

[19] If, in a different fact pattern, as of the date of the statement of assets and liabilities, any organization expenses have been incurred by the fund but were not yet paid by the adviser, a liability to the vendor(s) for the unpaid amount should be recorded and presented on the statement of assets and liabilities. Under such a scenario, the other journal entries would not change.

[20] Upon the commencement of operations, the fund would amortize the deferred offering costs asset into expense over 12 months on a straight-line basis in accordance with FASB ASC 946-20-35-5 and would Debit offering cost expense and Credit deferred offering costs (asset). If under the ELRA, the fund was operating over its expense cap and the adviser reimbursed the amortized offering costs but recoupment of the amortized offering costs by the adviser from the fund was not yet probable and estimable, the fund would make another entry to Debit due to/from adviser and Credit reimbursement of offering costs (contra expense) for the amount amortized.

[21] If, in a different fact pattern, as of the date of the statement of assets and liabilities, any offering costs have been incurred by the fund but were not yet paid by the adviser, a liability to the vendor(s) for the unpaid amount should be recorded and presented on the statement of assets and liabilities. Under such a scenario, the other journal entries would not change.

Statement of operations – Present organization expenses as an expense and present a corresponding reimbursement of organization expenses.

Fact Pattern 3:

Organization expenses of $20 and offering costs of $12 of a closed-end fund that isn't continuously offered are initially paid for by the adviser with the expectation that the fund will repay the adviser once external capital is received (which is probable as of the date of the seed capital financial statements) ,[22] and the fund will never be reimbursed by the adviser because there is no ELRA.

Journal entries

DR. Organization expenses	$20	
CR. Due to adviser[23]		$20
DR. Deferred offering costs	$12	
CR. Due to adviser[23]		$12

Statement of assets and liabilities – Present a liability to the adviser for organization expenses and offering costs, as well as an asset for offering costs until the offering occurs. For a closed-end fund that isn't continuously offered, offering costs are charged to paid-in-capital upon the sale of shares in accordance with FASB ASC 946-20-25-5.[24]

Statement of operations - Present organization expenses as an expense.

Fact Pattern 4:

[22] Per the AICPA Audit and Accounting Investment Companies Guide, Chapter 8 – Organization and Offering Costs section: "In accordance with FASB ASC 720-15-25-1, organization costs should be charged to expense as they are incurred. In certain instances, the fund's registration statement or offering agreement may indicate that the investment company does not incur the costs until a future event occurs. In such instances, such costs should be recorded when it is probable that the investment company will incur such costs, in accordance with FASB ASC 450-20."

[23] If, in a different fact pattern, as of the date of the statement of assets and liabilities, any organization expenses and/or offering costs have been incurred by the fund but were not yet paid by the adviser, a liability to the vendor(s) for the unpaid amount should be recorded and presented on the statement of assets and liabilities.

[24] Therefore, when the offering occurs, the fund will Debit paid-in-capital and Credit deferred offering costs.

The adviser purchases 10,000 shares of an open-end or a closed-end fund at $10 per share, for a total of $100,000. The adviser will pay for all organization expenses and offering costs and will not seek any reimbursement of these expenses and costs in the future.

Journal entry

DR. Cash	$100,000	
CR. Paid-in Capital		$100,000

Statement of assets and liabilities

In this fact pattern, there is an expectation that the fund will never pay for the organization expenses or offering costs, so shareholders will not be economically affected by the adviser's decision to pay these costs. As such, a statement of operations is not required. Only a statement of assets and liabilities is presented along with notes to the statement of assets and liabilities. The notes should disclose that the adviser has incurred all organization expenses and offering costs on behalf of the fund, and that the adviser will not seek reimbursement of such expenses and costs. The statement of assets and liabilities should reflect that the fund has a cash balance and net worth of $100,000.

8. When are independent public accountant consents required for seed capital financial statements?

Independent public accountants are required to consent to the use of their audit reports for seed capital financial statements of registrants included in publicly filed 1933 Act registration statements. An independent public accountant's consent is not usually necessary for seed capital financial statements of an investment company that is not registering shares under the 1933 Act (e.g., a BDC that uses Form 10 to register under the 1934 Act, or a closed-end fund that uses Form N-2 to register only under the 1940 Act).[25]

The staff of the SEC's Division of Investment Management has expressed a view that consents should be dated within 5 business days of a filing and generally are stale after 30 calendar days.[26]

---

[25] See PCAOB Auditing Interpretation 26: Responsibilities Regarding Filings Under Federal Securities Statutes: Auditing Interpretations of AS 4101, Sections 2 and 3.

[26] Refer to the AICPA Investment Companies Expert Panel November 2021 meeting highlights. See also the SEC's Division of Corporation Finance Financial Reporting Manual section 4810.3, Consents to the Use of Audit Reports, which notes that a new consent or acknowledgement letter is required when, among other things, "prior to the effectiveness of a registration statement if an extended period of time passes since the last filing. An extended time is generally any period which is more than 30 days."

9. **If a newly formed entity will be acquiring in a formation transaction a private fund or multiple private funds,[27] or certain investments from a private fund or multiple private funds, does the entity need to include in its initial registration statement or amended registration statement financial statements or other financial information for the private fund(s) in addition to including its own audited seed capital financial statements?**

   The newly formed entity must comply with the requirements of Rule 6-11 of Regulation S-X, Financial statements of funds acquired or to be acquired.

   Depending on facts and circumstances of whether a fund acquisition has occurred or is probable of occurring, including whether all or substantially all of the portfolio investments held by another fund have been or will be acquired by the entity, the entity may need to include in its initial registration statement or amended registration statement: (1) audited financial statements of the private fund(s) for the most recent fiscal year[26], (2) unaudited financial statements of the private fund(s) for the most recent interim period[28] and/or (3) a special-purpose, standalone Regulation S-X Article 12 compliant schedule of investments that includes information about the investments acquired or to be acquired when less than substantially all of the investments of a private fund are being acquired.

   Dear CFO position 2023-02 states: *"*In situations where a RIC or BDC is executing a transaction to seed a newly formed entity, the registrant generally should provide information about the investments to be acquired. In the staff's view, this allows for investors to better understand the investments the registrant seeks to acquire. When deciding what additional information may need to be provided, the staff believes consideration should be given such that potential investors of the purchasing registrant have all relevant information about the product being offered, including any relevant information about any anticipated acquisition by that registrant. For example, there have been instances where the staff has requested a Regulation S-X Article 12 compliant Schedule of Investments be provided that includes information on the investments to be acquired."

---

[27] A private fund is a fund that would be an investment company under the 1940 Act but for the exclusion provided from that definition by either sections 3(c)(1) or 3(c)(7) of the 1940 Act.

[28] Audited financial statements or unaudited interim financial statements of the private fund(s) that are included in an initial registration statement or amended registration statement would be required to comply with U.S. GAAP for private funds and Article 12 of Regulation S-X (i.e., full schedule of investments in lieu of a condensed schedule of investments). Such financial statements can be audited in accordance with (1) AICPA auditing standards or (2) AICPA auditing standards and PCAOB auditing standards.

A registrant may consider consulting with the staff from the Chief Accountant's Office of the SEC's Division of Investment Management to discuss the financial statements or other financial information that should be included in an initial registration statement or amended registration statement based on the specific fact pattern.

10. What are the auditing standards required for seed capital financial statements included in an initial registration statement submitted to or filed with the SEC?

The AICPA Investment Companies Expert Panel has published guidance on the applicable auditing standards for seed capital financial statements included in an initial registration statement submitted to or filed with the SEC, which can be located at ICs RIAs – applicable audit attest independence standards.