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SEC PROPOSES NEW REPORTING REQUIREMENTS FOR REGISTERED FUNDS

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EXECUTIVE SUMMARY AND ANALYSIS OF THE PROPOSED AMENDMENTS

Introduction

On May 20, 2015, the Securities and Exchange Commission (“SEC”) proposed rules, forms and amendments under the Investment Company Act of 1940 (the “1940 Act”) and related regulations (together, the “Proposed Amendments”) that would impose new and expanded disclosure and reporting obligations on registered investment companies (“funds”).¹ The Proposed Amendments are part of an effort to capture key information about funds’ investment practices on a more frequent basis and in a format that better enables the SEC staff to aggregate and analyze the data.

The Proposed Amendments would both broaden and deepen the nature of information the SEC receives about funds and their practices by (i) mandating reporting of information not previously reported to the SEC (such as risk metrics and detailed derivatives information); and (ii) converting certain of the information currently reported to the SEC into a modernized, structured data format. The SEC proposes two new reporting forms. Form N-PORT would replace current Form N-Q and would require monthly reporting of fund portfolio holdings and detailed information about funds’ derivative usage, risk metrics related to debt securities, counterparty exposure and securities lending transactions, among other things. Form N-CEN would replace current Form N-SAR and require annual reporting of census data.

Form N-PORT and Form N-CEN are primarily designed as tools for the SEC and its staff in their oversight of the fund industry; the forms are not intended to be investor disclosure documents, although Form N-PORT will be publicly available on a limited basis. The new reporting requirements are intended to assist the SEC staff with assessing funds’ regulatory compliance, identifying funds for examination, pursuing enforcement actions against funds,

¹ See Investment Company Reporting Modernization, Release No. IC-31610 (May 20, 2015), available at <http://www.sec.gov/rules/proposed/2015/33-9776.pdf> (the “Release”). The SEC also proposed additional changes to Form ADV and related reporting by investment advisers, which are summarized at <http://www.klgateshub.com/details/?pub=SEC-Proposes-Rules-for-Reporting-Separately-Managed-Accounts-on-Form-ADV-and-Revised-Recordkeeping-Rules-06-17-2015>

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and monitoring risks of individual funds, as well as industry-wide trends and risks. The SEC anticipates that the data gathered will also inform policy making.

Further, the SEC notes that both sophisticated institutional investors and third-party users that provide services to investors may find Form N-PORT disclosures useful for analyzing funds' investment practices. For example, institutional investors could directly use the data from the information on proposed Form N-PORT for their own quantitative analysis of funds, including to better understand the funds' investment strategies and risks, and to better compare funds with similar strategies.

Fund firms are likely to incur increased costs as a result of the Proposed Amendments, which may be significant given the detailed nature of the information being requested and the frequency with which funds will be required to file. Further, the SEC's access to such additional and enhanced information may have important consequences for funds with respect to SEC examinations and enforcement actions. At a minimum, the SEC staff may use the new and enhanced information that funds would report under the Proposed Amendments in its selection of which funds to examine. For example, proposed Form N-PORT would require funds to report monthly total returns for each of the previous three months. The SEC notes that this information could reveal performance outliers, or performance that appears to be inconsistent with a fund's investment strategy or other benchmarks, which may prompt further inquiries from the SEC staff. The SEC staff may base its selection of funds for examination on more specific criteria, and will have more information about a fund's investment practices at the outset of an exam. While it remains to be seen whether this access to new and enhanced information would lead to an increase in SEC enforcement actions, or perhaps a change in the nature and types of such actions, this will be an important consideration for funds if the Proposed Amendments become effective.

Fast Facts on the Proposed Rule Changes

The Proposed Amendments are published on the SEC's website and in the Federal Register. The public comment period for the proposals ends on August 11, 2015 (*i.e.*, 60 days after publication in the Federal Register). For a summary of the comments requested in the Proposed Amendments, please see Appendices 1 and 2.

Form N-PORT

- Funds (other than money market funds ("MMFs") and small business investment companies ("SBICs")) would be required to report portfolio-wide and position-level holdings data and certain risk metrics monthly, in a structured data ("XML") format.
- Form N-PORT would replace current Form N-Q, which funds currently file as of the end of each first and third fiscal quarter.
- Form N-PORT would require reporting of the portfolio holdings information currently contained in Form N-Q reports, but would also impose significant new reporting requirements, including: (1) quantitative risk metrics data for funds with at least 20% notional debt exposure; (2) detailed information about the characteristics and terms of each derivatives contract; (3) information about liquidity, pricing and fund flows; and (4) information about securities lending transactions and counterparty exposures.

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- Form N-PORT would be filed monthly, but only the information reported for the third month of a fund's fiscal quarter would be made publicly available, and only after a 60-day delay.
- Smaller funds and fund groups (as described below in Appendix 1) would have 30 months after the effective date to comply, while larger funds and fund groups would have 18 months after the effective date to comply.
- For a more in-depth summary of Form N-PORT and its requirements, as well as the comments requested by the SEC with respect to Form N-PORT, please see Appendix 1.

Form N-CEN

- Form N-CEN would require funds (other than face amount certificate companies) to report a wide variety of census information annually, in XML format.
- Form N-CEN would replace current Form N-SAR, which funds file semiannually. Form N-CEN would require much of the information reported on Form N-SAR while replacing items that are outdated or no longer informative with new reporting items.
- New reporting items include information about investments in controlled foreign corporations, securities lending transactions and the identity of a fund's pricing vendors.
- Funds would have 18 months after the effective date to comply.
- For a more in-depth summary of Form N-CEN, as well as the comments requested by the SEC with respect to Form N-CEN, please see Appendix 2.

Other Proposed Rule Changes Related to Funds' Reporting

- Amendments to Regulation S-X: Amendments to Regulation S-X would standardize and enhance derivatives holdings disclosures in fund financial statements, as well as other disclosures related to liquidity and pricing of investments. Such disclosures would be placed prominently in, rather than in the notes to, the financial statements. Funds would have 8 months after the effective date to comply.
- Rule 30e-3 (E-delivery of Shareholder Reports): Rule 30e-3 would permit (but not require) funds to provide shareholder reports and quarterly portfolio holdings online, unless a shareholder elects to receive paper copies via mail. Currently, funds can deliver periodic shareholder reports electronically only if a shareholder has affirmatively requested such form of delivery. Funds would be able to rely on the Rule immediately after the effective date but would have to provide shareholders 60 days' advance notice that they intend to rely on the Rule.

SEC Focus on Enhanced Derivatives Disclosures and Quantitative Measurements of Risk Metrics

The Proposed Amendments are a result of the SEC's ongoing effort to strengthen its ability to identify and address risks in the asset management industry. In a December 2014 speech, SEC Chair Mary Jo White outlined three initiatives aimed at the investment management industry: (1) expanded data reporting for funds and investment advisers; (2) enhanced controls on risks related to portfolio companies; and (3) improved transition planning and stress testing. In particular, Chair White indicated that "the reporting and disclosure of fund

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investments in derivatives, the liquidity and valuation of their holdings, and their securities lending practices should all be significantly enhanced.” She noted that “[i]nadequate controls in those areas can create significant risks for funds themselves and their investors, as well as raising questions about whether there could be a potential impact on the financial system as a whole.”²

Use of Derivatives

In her December 2014 speech, Chair White stated that fund reporting obligations have not adequately kept pace with emerging products and strategies, noting that the SEC’s “rules do not require standardized reporting for many types of derivatives used by funds today. This is a clear gap, particularly given the growth in the volume and complexity of derivatives used by funds.” The SEC states in the Release that the increased use and complexity of derivatives, as well as the popularity of so-called “alternative” funds, has led it to “create a more detailed, uniform, and structured reporting regime for derivatives.”

Form N-PORT would require a fund to disclose certain characteristics and terms of each derivatives contract, as well as the exposures the derivatives create or hedge in the fund, including exposures to currency fluctuations, interest rate shifts, prices of the underlying asset, and counterparty credit risk. Funds would be required to report detailed information regarding their use of derivatives, including the category of derivative (e.g., forward, future, option, etc.), the identity of the counterparty, and the relevant terms and conditions of each derivative (e.g., payoff profile and a description of the underlying reference instrument). Form N-PORT would also require funds to report the delta of an option, which is the ratio of the change in the value of the option to the change in the value of the reference instrument. Form N-PORT would also require funds to report monthly net realized gain or loss, and net change in unrealized appreciation or depreciation, attributable to certain derivatives (including commodity contracts, credit contracts, equity contracts, foreign exchange contracts, and interest rate contracts).

In addition, the proposed amendments to Regulation S-X would require new, standardized disclosures in financial statements regarding fund holdings. Regulation S-X currently does not prescribe specific information for most types of derivatives. Such proposed disclosures would now include fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased option contracts. The proposed amendments would also require that such disclosures be placed prominently in the financial statements, rather than in the notes, per the current requirement.

Quantitative Measurements of Risk Metrics

Proposed Form N-PORT would require reporting of certain quantitative measurements of risk metrics not previously reported by all funds. Unlike financial statements, which are backward-looking and static, the quantitative measurements of risk metrics data are forward-looking and measure data over a range of potential scenarios. In the Release, the SEC notes such risk metrics are intended to quantify the more narrative and qualitative disclosures

² See, Mary Jo White, Chair, Securities and Exchange Commission, Address at The New York Times DealBook Opportunities for Tomorrow Conference (Dec. 11, 2014).

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about fund investment strategies and risks included in fund registration statements, and are intended to assist the SEC in anticipating and preventing issues related to such risks.

Form N-PORT would require funds to disclose data on a portfolio-level basis, as well as on position-level bases, with respect to their exposure to particular types of investments (e.g., debt securities, repurchase and reverse repurchase agreements, and securities lending transactions). The new information to be collected would measure a fund's exposure and sensitivity to changing market conditions, such as changes in asset prices, interest rates, credit spreads, and market volatility, as well as assess liquidity risks and counterparty risks in relation to such changing market conditions. In addition, such risk metric calculations also may assist the SEC in assessing to what extent a fund's exposure to price movements is leveraged through borrowings or derivatives.

Form N-PORT would require a fund that invests in debt instruments, or in derivatives that provide exposure to debt instruments or interest rates, representing at least 20% of the fund's notional exposure to provide a portfolio level calculation of duration and spread duration across the applicable maturities in the fund's portfolio. For both duration and spread duration, the SEC proposes to require that funds provide the change in value in the fund's portfolio from a 1 basis point change in interest rates or credit spreads.

The SEC also proposes to require disclosure of risk measures at the investment level for options, as discussed above, and convertible bonds. Funds would be required to disclose for each convertible security the conversion ratio, information about the asset into which the debt is convertible, and the delta (*i.e.*, the ratio of the change in the value of the option to the change in the value of the asset into which the debt is convertible).

Funds would be required to provide position-level information regarding their counterparties with respect to securities lending, repurchase agreements and reverse repurchase agreements, as well as over-the-counter derivatives transactions. The SEC would use the data to assess both individual and multiple fund exposures to a single counterparty.

Form N-PORT also would require information about liquidity risk by, for example, requiring funds to provide information about the market liquidity and pricing of portfolio investments, as well as information regarding fund flows, which is intended to highlight liquidity pressures a fund might experience due to redemption activity.

In addition to the information required by Form N-PORT, in the Release, the SEC noted that "the additional census-type information not currently collected by Form N-SAR would improve the [SEC] staff's ability to carry out regulatory functions, including risk monitoring." Regulation S-X, as proposed, would also now require disclosure regarding liquidity of investments.

This focus on quantitative measurements of risk metrics is part of a larger regulatory movement. For example, the Proposed Amendments are preceded by the SEC's 2014 MMF reforms, which impose new controls to address risks to investors and the financial system at large, as well as the SEC's publication of its guidance "Risk Management In Changing Fixed Income Market Conditions" in January 2014, which recommended certain risk analytics, such as stress testing of liquidity and other scenarios and risk assessment, as best practices for fixed income funds.

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APPENDIX 1: SUMMARY OF FORM N-PORT AND SUMMARY OF COMMENTS REQUESTED BY THE SEC ON FORM N-PORT

Summary of Form N-PORT

Introduction

- In the Release, the SEC proposed rescinding current Form N-Q. Because the data reported on Form N-PORT would require funds to provide the same portfolio holdings information already contained in reports on Form N-Q, this Appendix 1 will principally discuss the additional disclosures proposed on Form N-PORT that differ from the information currently reported on Form N-Q.
- The SEC stated in the Release that the additional information proposed to be collected on Form N-PORT would assist the SEC in analyzing and understanding various risks—for example, interest rate risk, credit risk, volatility risk, liquidity risk, counterparty risk, other market risks, or risks associated with specific types of investments, such as emerging market debt or commodities—on a fund level, across specific types of funds, and for the fund industry as a whole.

Form N-PORT Filing, Compliance, and Public Availability: Who, When, and How

Filers

- All funds (other than MMFs and SBICs) and exchange traded funds organized as unit investment trusts would be required to file Form N-PORT.
- Like Form N-Q, funds offering multiple series would be required to file a report on Form N-PORT for each series separately, even if some information is identical for two or more series.

Compliance Timing

The SEC has proposed a tiered compliance structure for filing reports on Form N-PORT:

- Smaller funds and fund groups with net assets under \$1 billion as of the end of the most recent fiscal year would have 30 months after the effective date to comply with the new reporting requirements; and
- Larger funds and fund groups with net assets exceeding the \$1 billion threshold would have 18 months after the effective date to comply with the new reporting requirements.

Reporting Timing

- Form N-PORT would require funds to report portfolio investments information on a monthly basis, and no later than 30 days after the close of each calendar month.
- In contrast, Form N-Q currently requires funds to report their complete portfolio holdings only semiannually, and 60 days after the close of the first and third fiscal quarters of each fiscal year.

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Filing Format

- Form N-PORT would require reporting in XML format, which the Release states is intended to allow the SEC to analyze portfolio holdings data both on a fund-by-fund basis and across separate funds. Funds currently file Form N-Q in a plain text or hypertext format.
- The SEC is considering whether reports on Form N-PORT should be submitted through EDGAR or another electronic filing system, either maintained by the SEC or by a third-party contractor. Form N-Q is currently submitted through EDGAR.

Public Disclosure

- While funds would report on Form N-PORT monthly, only information filed for the third month of each fiscal quarter would be made publicly available. Such information would not be made public until 60 days after the end of a fund's fiscal quarter.
- While currently all information provided on Form N-Q is made public, Form N-Q is submitted semiannually. Information similar to that reported on Form N-Q is also made public in fund shareholder reports filed on Form N-SCR.
- The SEC has stated that it does not presently intend to make public the information reported on Form N-PORT for the first and second months of each fund's fiscal quarter, but has requested comments as to the proposed frequency of public availability.

Form N-PORT: Proposed Disclosure Requirements

Disclosure of General Identifying Information

- Form N-PORT would require general identifying information about a fund, including: (1) the name of the fund and its series; (2) relevant file numbers; (3) the date of fiscal year-end; and (4) the date as of which information is reported.
- Form N-PORT would also require the Legal Entity Identifier ("LEI") of the fund and its series, as assigned or recognized by the Global LEI Regulatory Oversight Committee or the Global LEI Foundation. Any fund that has not yet obtained a LEI would be required to obtain one.
- The SEC stated that the inclusion of an LEI number is intended to "facilitate the ability of investors and the SEC to link the data reported on Form N-PORT with data from other filings or sources that is or will be reported elsewhere."

Disclosure of Portfolio-Level Information

Assets and Liabilities

- Form N-PORT would require disclosure of a fund's total assets, total liabilities, and net assets.
- Funds would also be required to report any assets invested in a controlled foreign corporation ("CFC") for the purpose of investing in certain types of investments (which are often commodities and commodity-linked derivatives). Form N-PORT would require funds to disclose the underlying investment of each CFC.

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- Funds would also be required to report the amount of certain liabilities, including: (1) borrowings attributable to amounts payable for notes payable, bonds, and similar debt; (2) payables for investments purchased on a delayed delivery, when-delivered, other firm commitment basis, or standby commitment basis; and (3) the liquidation preference of outstanding preferred stock issued by a fund.

Portfolio-Level Risk Metrics

- Form N-PORT would require funds to report certain portfolio-level risk metrics, which would provide measurements of a fund's exposure to changes in interest rates and credit spreads.
- As proposed, funds that invest in debt instruments, or derivatives that provide exposure to debt instruments or interest rates, representing at least 20% of such fund's notional exposure would have to provide a portfolio-level calculation of duration and credit spread duration across multiple maturities in the fund's portfolio.
- Notional exposure would be calculated as the sum of the absolute values of: (i) the value of each debt security; (ii) the notional amount of each swap, including, but not limited to, total return swaps, interest rate swaps credit default swaps, for which the underlying reference asset or assets are debt securities or an interest rate; and (iii) the delta-adjusted notional amount of any option for which the underlying reference asset is an asset described in clause (i) or (ii).
- For duration and spread duration, a fund would provide the change in value in the fund's portfolio from a 1 basis point change in interest rates or credit spreads.
- For duration, a fund would have to calculate the change in value in the fund's portfolio from a 1 basis point change in interest rates (commonly known as DV01) for each applicable key rate along the risk-free interest rate curve, *i.e.*, 1 month, 3 month, 6 month, 1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 20 year, and 30 year interest rate, for each applicable currency in the fund. A fund would only report the key rates that are applicable to the fund.
- A fund would provide a measure of spread duration (commonly known as SDV01) at the portfolio level for each of the same maturities listed above, aggregated by non-investment grade and investment grade exposures.

Securities Lending

- Form N-PORT would require funds that engage in securities lending (which is typically the lending of certain of a fund's portfolio securities in exchange for the posting of certain collateral and a fee, generally a portion of the interest on the collateral) to report certain counterparty and position-level information.
- Currently, funds only: (1) disclose on Form N-SAR whether they are permitted under their investment policies to (and whether they did in fact) engage in securities lending; (2) disclose in their registration statements information regarding securities lending programs; and (3) may identify securities on loan in schedules of investments prepared pursuant to Regulation S-X.

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- As proposed, Form N-PORT would address additional securities lending considerations, such as (1) the extent to which a fund lends portfolio securities; (2) the counterparties to which the fund is exposed; (3) the fees and revenues associated with those activities; and (4) the significance of securities lending revenue to the investment performance of the fund.
- In particular, a fund would be required to report the full name and LEI of each securities lending counterparty and the aggregate, portfolio-level value of all securities on loan to each counterparty. At this point, the SEC has determined not to require such information on a loan-by-loan basis.

Return Information

- Form N-PORT would require funds to provide monthly total returns for each of the preceding three months, calculated using the same standardized formulas used for the performance table contained in the risk-return summary of a fund's prospectus. Multiple class funds would report returns for each class.
- Funds would also be required to report, for each of the preceding three months, monthly net realized gain (or loss) and net change in unrealized appreciation (or depreciation) attributable to derivatives (broken down into certain categories) and non-derivative investments.

Flow Information

- Form N-PORT would require funds to report, for each of the preceding three months, the total NAV of: (1) shares sold (including exchanges but excluding reinvestment of dividends and distributions); (2) shares sold in connection with reinvestments of dividends and distributions; and (3) shares redeemed or repurchased (including exchanges). This requirement is similar to what is currently reported on Form N-SAR.

Disclosure of Position-Level Information for All Investments

Form N-PORT would require a fund to report information on a position-level basis about each individual investment held by it and its consolidated subsidiaries.

- To facilitate the SEC's identification of individual portfolio securities and the reference instruments of derivatives, Form N-PORT would require funds to report certain securities identifiers (e.g., LEI of the issuer, CUSIP, ISIN, ticker, or other unique identifier).
- Funds would also be required to report the percentage value of each investment relative to the net assets of such fund.
- Form N-PORT would require funds to report, for each investment: (1) the asset type (e.g., short-term investment vehicle, repurchase agreement, equity, debt, derivative, structured note, loan, ABS, commodity, real estate); (2) the issuer type (e.g., corporate, U.S. Treasury, U.S. government agency, U.S. government-sponsored entity, municipal, non-U.S. sovereign, private fund); and (3) the country that corresponds to the country of investment or issuer, based on the concentrations of the risk and economic exposure of the investment.

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- Form N-PORT would also require funds to state, for each investment, whether the investment is a “restricted security” and/or an “illiquid asset,” as those terms are defined in Form N-PORT, and whether a given investment is categorized by the fund as a Level 1, Level 2, or Level 3 fair value measurement in the fair value hierarchy under U.S. Generally Accepted Accounting Principles.

Disclosure of Position-Level Information for Certain Types of Investments

In addition to the information outlined above with respect to all of a fund’s investments, Form N-PORT would also require additional disclosure concerning exposure to particular types of investments (*i.e.*, debt securities, repurchase and reverse repurchase agreements, derivatives, and securities lending).

Debt Securities

- Form N-PORT would require funds to report additional information concerning each debt security held by the fund, including the maturity date, coupon, whether the debt security is currently in default, whether interest payments for the debt security are in arrears or coupon payments are deferred, or whether any portion of the interest is paid in kind.
- Funds would be required to disclose further information for convertible securities, including whether the conversion is mandatory or contingent, a description of the reference instrument, the conversion ratio, information about the asset into which the debt is convertible, and the delta.

Repurchase and Reverse Repurchase Agreements

- Form N-PORT would require funds to disclose additional information about repurchase or reverse repurchase agreement, such as: (1) whether the transaction is cleared by a central counterparty (and, if so, the name of the central counterparty) or if not, the name and LEI of the over-the-counter counterparty; (2) the repurchase rate; (3) the maturity date; and (4) the principal amount, value, and category of the applicable collateral.
- Such repurchase and reverse repurchase agreement information would be comparable to current disclosures made by MMFs on Form N-MFP.

Derivatives

- Form N-PORT would require additional information about each derivatives contract in a fund’s portfolio. Funds would be required to report the category of derivative representing the investment (*e.g.*, forward, future, option, etc.) and the name and LEI of the counterparty (including a central counterparty).
- Funds would also be required to disclose terms and conditions of each derivative investment relevant to an understanding of its payoff profile. For instance, in the case of options and warrants, funds would report the type, payoff profile, description of the underlying reference instrument, number of shares or principal amount of the reference

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instrument, exercise price or rate, expiration date, delta, and unrealized appreciation or depreciation of the option or warrant.³

- Form N-PORT would require similar information for futures and forwards, foreign exchange forwards and swaps, swaps (other than foreign exchange swaps), and other derivatives.
- In conjunction with proposed Form N-PORT, the SEC has also proposed amendments to Regulation S-X, which would, among other items, make similar changes to the reporting regime for derivatives disclosures in fund financial statements.
- Form N-PORT is intended in part to create a more detailed, uniform, and structured reporting regime with respect to the use of derivatives by funds and to facilitate the SEC's analysis of derivatives investments across funds.

Securities on Loan and Cash Collateral Reinvestment

- Form N-PORT would require that funds report, on an investment-by-investment level, information about securities on loan and the reinvestment of cash collateral securing the loans.
- For each investment held, a fund would report whether (1) any portion of the investment was on loan by the fund, and, if so, the value of the securities on loan; and (2) any portion of the investment represents reinvestment of cash collateral or non-cash collateral received for loaned securities and, if so, the value thereof.
- In the SEC's view, such disclosures "would provide information about how funds reinvest the cash collateral received from securities lending activity and should allow for more accurate determination of the value of collateral securing such loans."

Miscellaneous Securities, Explanatory Notes, and Exhibits

- Form N-PORT would permit funds to report certain investments as "miscellaneous securities" (as currently permitted by Regulation S-X) and to provide explanatory notes relating to the filing.
- Form N-PORT would require that reports filed for the first and third quarters of a fund's fiscal year include an attachment of the fund's complete portfolio holdings for that fiscal quarter, presented in accordance with Regulation S-X. The SEC has taken the view that, despite the proposed rescission of Form N-Q, investors might prefer that portfolio holdings schedules for a fund's first and third fiscal quarters continue to be presented using the form and content specified by Regulation S-X.

³ If the underlying reference instrument is an index, a fund's disclosure would depend on whether the index's components are publicly available and whether the notional amount of the derivative represents more or less than 1% of the net asset value ("NAV") of the fund. If the underlying reference instrument is a derivative, a fund would indicate the category of derivative and provide all information otherwise reported on Form N-PORT for that type of derivative.

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Summary of Comments Requested by the SEC on Form N-Port

In the Release, the SEC requested comments on all areas of proposed Form N-PORT. Below is a summary of these comments requested categorized by subject matter. Please note that not all comments requested are summarized in this Appendix 1.

The comment period is open through August 11, 2015.

In the Release, the SEC requested comments regarding:

- Form N-PORT generally: whether (1) any types of entities should be added or removed from the reporting requirements; (2) any different or additional information should be required to be reported for any of the sections; and (3) the SEC's assumption is correct that the information that Form N-PORT would require is readily available as a matter of general business practice.
- Filing of Form N-PORT: (1) whether the attachment of portfolio holdings schedules to reports on Form N-PORT should be required, and/or whether a better alternative exists for the reporting of such information; (2) whether the timing requirements for filing the schedules should be modified and whether the schedules should be certified, like the schedules to Form N-Q; (3) what the costs to funds would be of providing the information in the new XML format; (4) whether another structured data format, or a filing system other than EDGAR, should be considered; (5) whether thirty days is sufficient time for funds to gather the information required by Form N-PORT; and (6) whether any changes should be considered to the proposed frequency and delay of public disclosure of information reported on Form N-PORT.
- CFCs: (1) whether only the underlying investment, and not the investment in the CFC, should be disclosed; and (2) how commonly funds invest in CFCs that in turn invest their assets in underlying investments.
- Assets and Liabilities: whether (1) certain assets and liabilities should be required to be separately reported (including separately breaking out categories, as in N-SAR); and (2) additional methods of reporting assets or liabilities exist other than N-PORT's currently proposed format.
- Derivatives: whether (1) the information to be reported should be modified or augmented (such as by including more identifying detail for options); (2) the 20% threshold should be modified (including being higher or lower, or instead being based directly on the NAV of the debt securities and interest rate investments); and (3) alternative methods exist to the proposed reporting of the effect of derivatives on fund returns.
- Derivatives Calculations: (1) what the costs, burdens and concerns would be to funds in reporting as underlying assets indices that are proprietary or subject to licensing agreements; and (2) how reported values and their comparability to other funds' values would be affected by underlying inputs and assumptions used by each fund in calculating delta.
- Debt Securities: (1) whether additional or alternative characteristics of, or metrics related to (e.g., "vega") debt securities should be disclosed; and (2) how reported values and their comparability to other funds' values would be affected by underlying inputs and assumptions used by each fund in calculating delta with respect to convertible securities.

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- Repurchase and Reverse Repurchase Agreements: whether additional information should be reported, either (1) to provide for differences in fund practices from MMFs, on whose Form N-MFP the proposed disclosures were based; or (2) to assist investors in understanding related counterparty and other risks.
- Risk Metrics: (1) whether alternatives or modifications to the calculation of duration and spread duration methodologies should be considered; (2) what the relative costs, burdens and benefits of reporting duration and spread duration risk metrics at the portfolio level would be versus the position level using the prescribed methodology; (3) how the reported duration and spread duration values and their comparability to other funds' values would be affected by underlying inputs and assumptions used by each fund to make such calculations; and (4) whether any additional information should be included regarding liquidity and valuation (e.g., including identifying the primary pricing source used and any third-party pricing sources, or whether an independent appraiser assisted with developing internal fair value).
- Securities Lending: whether (1) securities lending should be reported on a loan-by-loan or security-by-security basis rather than in the aggregate, as proposed; and (2) securities lending reporting should be based on other thresholds of exposure to counterparties (e.g., using top five counterparties, or a threshold based on a percentage based on a ratio of the exposure to the NAV of the fund) rather than inclusive of all counterparties, as proposed.
- Securities on Loan and Cash Collateral Reinvestment: whether (1) any additional information about securities on loan and cash collateral reinvestment should be reported; and (2) disclosure should be on the portfolio level rather than the individual security level.
- Return Information: whether (1) return information should be reported annually on N-CEN rather than monthly on N-PORT, as proposed; and (2) alternative requirements for reporting return information should be used (e.g., including gross return information).
- Flow Information: whether flow information should be reported annually on N-CEN rather than monthly on N-PORT, as proposed.
- Fund and Portfolio Holding Identifiers: (1) whether LEIs should be required, as proposed; (2) whether more information should be included to help identify funds; (3) regarding the proposed portfolio holding identifiers, whether any additional unique identifiers should be included; and (4) whether there are any special considerations to note regarding currently proposed portfolio holding identifiers or proposed modifications or alternative portfolio holding identifiers.

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APPENDIX 2: SUMMARY OF PROPOSED FORM N-CEN AND SUMMARY OF COMMENTS REQUESTED BY THE SEC ON FORM N-CEN

Summary of Form N-CEN

Introduction

- This Appendix 2 will principally discuss the additional disclosures proposed on Form N-CEN that differ from the portfolio holdings information currently reported on Form N-SAR, which portfolio holdings information is proposed to be included in Form N-PORT in the rescission of Form N-SAR.
- The SEC stated in the Release that Form N-CEN would streamline and update information reported to the SEC to reflect current SEC information needs and developments in the industry and its XML format would render the information more useful to end users, including the SEC and investors.

Form N-PORT Filing, Compliance, and Public Availability: Who, When, and How

Filers

- All funds other than face amount certificate companies.
- Like Form N-SAR—but unlike Form N-PORT—funds offering multiple series would only be required to file a report on Form N-CEN at the fund level.

Compliance Timing

- Funds would have 18 months after the effective date to comply.

Reporting Timing

- A fund would be required to file Form N-CEN within 60 days of its fiscal year end.
- This differs from Form N-SAR's reporting timing for funds, which is semiannual, but does not differ for unit investment trusts ("UITs"), which is also annual.

Filing Format

- Form N-CEN would require reporting in XML format, which differs from Form N-SAR's required plain text or hypertext format.

Form N-CEN: Proposed Disclosure Requirements

Disclosure of General Background Information About the Registrant

- In addition to information currently required by Form N-SAR, Form N-CEN would require each fund's CIK, LEI, public website, and location of its books and records. The SEC is proposing amendments to exempt funds from current books and records disclosure on their registration forms to avoid the filing of duplicative information.

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- information about a fund's directors and chief compliance officer ("CCO"), and information regarding financial support funds have received from affiliated entities.
- a fund to report whether it had relied on exemptive orders during the reporting period.
- all funds to report certain background information that is currently required by Form N-SAR, such as the fund's name, address, and filing number.
- certain new disclosures when funds (other than SBICs) file copies of their independent public accountants' reports on internal control, including (1) whether any material weaknesses were identified; (2) whether the certifying accountant's opinion on the audit of a fund's financial statements was anything other than unqualified; (3) information as to payments to shareholders or reprocessed shareholder accounts as a result of any NAV error; and (4) information regarding payments of dividends or distributions requiring a written statement pursuant to Section 19(a) of the 1940 Act and Rule 19a-1 thereunder.

Disclosure of Information by All Management Investment Companies Other Than SBICs

A certain portion of Form N-CEN would be completed by all funds except for SBICs. Such information would be provided separately for each series in the event a fund offers multiple series. In addition to information currently required by Form N-SAR, Form N-CEN would require:

- disclosure of specific information on the classes of open-end management companies, including identifying information for each share class outstanding and information on the number of classes authorized, added, and terminated during the reporting period.
- a fund to identify itself by fund type (*i.e.*, (1) exchange-traded fund; (2) exchange-traded managed fund; (3) index fund; (4) fund seeking to achieve performance results that are a multiple of a benchmark, the inverse of a benchmark, or a multiple of the inverse of a benchmark; (5) interval fund; (6) fund of funds; (7) master-feeder fund; (8) money market fund; (9) target date fund; or (10) underlying fund to a variable annuity or variable life insurance contract). While Form N-SAR defines and the Release proposes to define some of these types of funds, some are not defined in either place.
- a fund to report whether it seeks to operate as a non-diversified investment company, as defined in Section 5(b)(2) of the 1940 Act. This differs from the information requested on Form N-SAR, which requires a fund to report whether it was a *diversified* investment company *at any time during the period or at the end of the reporting period*.
- a fund to disclose whether it invests in a CFC, such as a wholly-owned subsidiary, for purposes of investing in certain types of instruments, including commodities.
- each fund to report: (1) whether it is authorized to engage in securities lending transactions and whether it loaned securities during the reporting period (and, if so, whether any borrower had defaulted on its obligations); (2) information about the fees associated with securities lending activity; and (3) information about the fund's relationship with certain securities lending-related service providers.
- funds to disclose whether they relied on certain rules under the 1940 Act during the reporting period in addition to those Form N-SAR currently covers, such as Rules 15a-4 and 17a-8.

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- funds to provide identifying information on persons that provided them pricing services.

Disclosure of Information by All Closed-End Management Companies and SBICs

- In addition to Form N-CEN's specific closed-end funds and SBICs disclosures, Form N-CEN would also require disclosure of information relating to rights offerings and secondary offerings, including whether such an offering occurred during the reporting period and the type of security involved.

Disclosure of Information by All Exchange-Traded Funds and Exchange-Traded Managed Funds

Form N-CEN would require ETFs and ETMFs (together, "ETFs") to report specialized information not currently required on Form N-SAR, including:

- certain identifying information about authorized participants and the dollar value of the ETF shares purchased and redeemed by each authorized participant during the reporting period.
- certain characteristics of the redemption and creation of ETF creation units, including the total value of creation units that were: (1) purchased primarily in exchange for portfolio securities on an in-kind basis; (2) redeemed primarily on an in-kind basis; (3) purchased primarily in exchange for cash; and (4) redeemed primarily on a cash basis.
- the applicable transactional fees for the foregoing transactions, the number of ETF shares required to form a creation unit as of the last business day of the reporting period, and the exchange on which the ETF is listed.
- information regarding tracking difference and tracking error with respect to ETFs that are UITs.

Disclosure of Information by All Unit Investment Trusts

- Unlike Form N-SAR, Form N-CEN would differentiate between UITs that are, and that are not, separate accounts of insurance companies.
- UITs that are separate accounts of insurance companies would be required to disclose: (1) identifying and census information for each security issued through the separate account; (2) information relating to Section 1035 exchanges; and (3) whether the UIT relied on 1940 Act Rules 6c-7 and 11a-2.

Disclosure Attachments

- All but one proposed attachment to Form N-CEN is currently required on Form N-SAR, while certain of the attachments required on Form N-SAR would be eliminated on Form N-CEN. The new attachment would be filed by a fund that received financial support during the reporting period from certain persons (affiliates, promoters or principal underwriters of the fund, or affiliates of such person).

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Summary of Comments Requested by the SEC on Form N-CEN

In the Release, the SEC requested comments on all areas of proposed Form N-CEN. Below is a summary of these comments requested categorized by subject matter. Please note that not all comments requested are summarized in this Appendix 2.

The comment period is open through August 11, 2015.

In the Release, the SEC requested comments regarding:

- Form N-CEN Generally: whether (1) any types of entities should be added, or removed, from the reporting requirements; (2) funds offering multiple series should be required to file a report for each series separately; (3) any types of funds should be added or removed from Form N-CEN's proposed list of fund types; and (4) any different or additional information should be required to be reported.
- Form N-CEN Attachments: whether (1) any additional attachments should be required; (2) the information should be reported as attachments to the form or in narrative text-boxes embedded in the form; (3) certain attachments should be limited to only closed-end funds and SBICs as proposed; (4) any attachment filing requirements without materiality qualifiers should be limited by materiality qualifiers; (5) any attachments proposed to be eliminated currently required by Form N-SAR should be retained; and (6) the proposed elimination of the N-SAR attachment regarding matters submitted to a vote of security holders to reports should be retained in Form N-CEN.
- Filing of Form N-CEN: whether (1) a fund should be required to file an amendment to Form N-CEN within a certain period of time if previously reported information changes; (2) N-CEN should be filed at a time other than the end of a fund's fiscal year; (3) sixty days is an appropriate time frame within which to file Form N-CEN; and (4) any changes should be considered to the proposed frequency of information reported on Form N-CEN.
- Identifying Information: whether (1) other fund identifying information other than file number and LEI should be required; and (2) additional identifying information with regard to a series or classes of a fund should be included, or whether currently proposed identifying information should be excluded.
- Fund Boards of Directors and CCOs: whether (1) the information requested regarding fund CCOs should be requested as proposed, including whether privacy concerns exist; and (2) additional information regarding fund directors should be requested.
- Index Funds: whether (1) the difference between an index fund's total return during the reporting period and the index's return during the reporting period should be reported; and (2) a better methodology exists for calculating tracking difference or tracking error.
- Securities Lending: whether (1) funds should be required to report any or all of the proposed information concerning securities lending activities, or whether alternative disclosures would be better to gain the information requested; (2) the proposed disclosure requirements would yield beneficial information; and (3) the proposed reporting requirements concerning securities lending activities would be burdensome.
- Expense Limitations: whether (1) the proposed disclosures are appropriate; and (2) any additional disclosures should be included.

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- Service Providers: whether (1) the proposed disclosures are appropriate; (2) the form should require additional information about service providers; (3) additional information should be requested regarding service providers, including regarding advisers or subadvisers; (4) the form should request information regarding sub-transfer agents or other shareholder services; (5) additional information on service provider fees should be requested; and (6) additional information about broker-dealers should be requested (including additional information regarding payments to funds to brokers or dealers for brokerage and research services should be requested).
- Closed-End Funds and SBICs: whether (1) the proposed disclosure is appropriate or whether additional information should be requested; (2) additional information regarding trading in closed-end funds or SBICs should be requested; (3) additional information regarding repurchases should be requested; (4) the information included regarding management fees should be revised (including whether the form should provide specific instructions on the calculation of management fees and whether additional, detailed information regarding management fees should be included); (5) the fact that a closed-end fund or SBIC pays a performance fee should be disclosed; (6) whether a reference to a \$1,000 face amount is appropriate in connection with defaults; and (7) the form should request per-share amounts or instead request aggregate amounts in arrears in connection with dividends in arrears.
- ETFs and ETMFs: (1) whether ETFs should not be required to report certain of the proposed requested information, or whether additional information should be reported; (2) whether ETFs that are UITs and ETFs that are open-end funds should be subject to the same special reporting requirements, or whether they should be subject to different requirements; (3) whether the proposed authorized participant disclosures should be required, or whether additional information should be requested; (4) whether the proposed information concerning creation unit characteristics and primary market transactions should be required; (5) whether the ETFs and ETMFs subject to Form N-CEN's reporting requirements should be defined as proposed; (6) whether the proposed reporting requirements will yield beneficial information; (7) whether any of the proposed reporting requirements would conflict with confidentiality requirements of agreements between private parties; (8) how the information gathered might be used by others outside the SEC, if at all; and (9) how costly the proposed reporting requirements would be to funds.
- UITs: whether (1) any additional information should be requested, or whether any information proposed should be excluded; (2) any additional information regarding those involved in the formation and governance of the UIT and service providers to the UIT should be requested; (3) any additional information regarding the number of series should be requested; (4) regarding the requirement to provide asset information for the UIT, whether any other information regarding the series' assets should be provided; and (5) regarding items specifically related to insurance company separate accounts, whether the proposed information to be requested is appropriate or whether other information should be requested for insurance company separate accounts.
- Additional Information: whether any additional information regarding the following should be included: (1) funds' fidelity bonds; (2) exemptive or other orders; or (3) fund accounting and valuation.

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- **Definitions:** whether proposed definitions should be revised or clarified (*e.g.*, definitions for service providers) or definitions would be helpful for certain undefined terms (*e.g.*, “securities lending agent,” “sub-adviser,” “pricing service,” “net annual operating expenses”).

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