

SEC PROPOSES RULE CHANGES TO PUBLIC LIQUIDITY RISK MANAGEMENT DISCLOSURES

Date: 10 April 2018

U.S. Investment Management Alert

By: Peter J. Shea, Fatima S. Sulaiman, Michael M. Hart-Slattery, Timothy A. Bekkers

On March 14, 2018, the Securities and Exchange Commission (“SEC”) proposed amendments to public liquidity-related disclosure requirements mandated by Rule 22e-4 under the Investment Company Act (the “Liquidity Rule”). [1] To a certain extent, this rule proposal is a part of a larger SEC and SEC staff reevaluation of the burdens imposed on funds by the Liquidity Rule and of the usefulness to investors of certain Liquidity Rule disclosure requirements. [2]

The SEC is proposing to replace public reporting on Form N-PORT of aggregate liquidity classification information about a fund's portfolio on a quarterly basis with new disclosure in the fund's annual reports to shareholders that provides a narrative discussion of the operation and effectiveness of a fund's liquidity risk management program over the reporting period.

The SEC is also proposing to amend Form N-PORT asset classification reporting requirements to allow a fund to report a single investment in multiple classification buckets. Presently, a fund must report a single portfolio position in a single bucket (e.g., highly liquid, moderately liquid, less liquid, or illiquid) even if spreading the position among multiple buckets would have better reflected the fund's liquidity profile. Such multi-bucketing will only be permitted in certain defined circumstances.

Finally, the SEC is proposing to amend Form N-PORT to require all entities required to file Form N-PORT, including all registered management investment companies and ETFs (excepting money market funds and business development companies), to report holdings of cash and cash equivalents. This amendment is to allow the SEC to monitor trends in the use of cash and cash equivalents and, in the case of funds under the Liquidity Rule, assess compliance with highly liquid investment minimum percentage requirements imposed by the Liquidity Rule.

Comments on the proposed disclosure amendments are due May 18, 2018.

[1] See *Investment Company Liquidity Disclosure*, *Investment Company Release No. IC-33046* (Mar. 14, 2018) (www.sec.gov/rules/proposed/2018/ic-33046.pdf).

[2] On February 22, 2018, the SEC adopted an interim rule that delays the compliance dates of certain provisions of the Liquidity Rule. For additional information on the SEC's interim rule, see our alert: [*SEC Delays Certain Liquidity Rule Requirements and Issues Guidance Regarding Illiquid Security Determinations*](#).

On February 21, 2018, the SEC's Division of Investment Management issued a second round of guidance in the form of Frequently Asked Questions, addressing compliance questions related to the Liquidity Rule. For additional

information on that guidance, see our alert: [*Division of Investment Management Issues Second Round of FAQs on Liquidity Risk Management Programs*](#).

KEY CONTACTS



PETER J. SHEA
PARTNER

NEW YORK
+1.212.536.3988
PETER.SHEA@KLGATES.COM



FATIMA S. SULAIMAN
PARTNER

WASHINGTON DC
+1.202.778.9082
FATIMA.SULAIMAN@KLGATES.COM

This publication/newsletter is for informational purposes and does not contain or convey legal advice. The information herein should not be used or relied upon in regard to any particular facts or circumstances without first consulting a lawyer. Any views expressed herein are those of the author(s) and not necessarily those of the law firm's clients.