SEC Adopts Targeted Changes to Public Liquidity Risk Management Disclosure

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Washington D.C., June 28, 2018 — The Securities and Exchange Commission today adopted amendments to public liquidity-related disclosure requirements for certain open-end funds. Under the amendments, funds would discuss in their annual or semi-annual shareholder report the operation and effectiveness of their liquidity risk management programs. This requirement replaces a pending requirement that funds publicly provide a quantitative end-of-period snapshot of historic aggregate liquidity classification data for their portfolios on Form N-PORT.

The Commission adopted the open-end fund liquidity rule in October 2016 in an effort to promote effective liquidity risk management programs in the fund industry. Management of liquidity risk is important to funds' ability to meet their statutory obligation — and their investors' expectations — regarding redeemability of their shares. Since adoption of the 2016 rule, staff has engaged in extensive outreach to identify potential issues associated with the effective implementation of the rule.

This outreach resulted in a series of actions taken by the Commission. In addition to today's adoption, the Commission previously adopted a rule that extends by six months the compliance date for the classification and classification-related elements of the liquidity rule and related reporting requirements. In addition, the staff has issued guidance intended to assist funds in complying with the liquidity rule's requirements. These actions are aimed at providing investors with accessible and useful information about liquidity risk management of the funds they hold while providing sufficient time for funds to implement the requirement to classify their holdings in an efficient and effective manner.

"The amendments will require funds to make information on a key aspect of effective portfolio management available to investors. This additional information should enhance investor-specific evaluation and decision making. Funds vary widely in portfolio management and I encourage funds to develop disclosure practices that best inform our Main Street investors of the fund's approach to liquidity management, including, if appropriate, using quantitative metrics," said Chairman Clayton. "As we move forward, the SEC staff will review quantitative liquidity disclosures and evaluate whether there are common quantitative metrics that allow for comparison across similarly situated funds that can and should be disclosed to investors and the market. I look forward to the staff's analysis."

These amendments will become effective sixty days after they are published in the Federal Register.

FACT SHEET
Adoption of Amendments to Public Liquidity Risk Management Disclosure
SEC Open Meeting
June 28, 2018

The Securities and Exchange Commission is adopting amendments to public liquidity-related disclosure requirements for open-end funds. These actions are meant to help provide investors with accessible and useful information about the liquidity risk management practices of the funds they hold.

Highlights

Improved Liquidity Disclosure

Under the amendments, funds would discuss in their annual or semi-annual shareholder report the operation and effectiveness of their liquidity risk management program, replacing a pending requirement that funds publicly provide the aggregate liquidity classification profile of their portfolios on Form N-PORT.

Enhanced N-PORT Classification Reporting

The amendments to Form N-PORT (the form that funds will file each month with portfolio holdings information) will provide funds the flexibility to split their portfolio holdings into more than one classification category in three specified circumstances when split reporting equally or more accurately reflects the liquidity of the investment or eases cost burdens. Finally, Form N-PORT will require that funds disclose their holdings of cash and cash equivalents not reported elsewhere on the Form.

What's Next?

The effective date for the form amendments will be 60 days after publication in the Federal Register.

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