

IAA'S ONLINE NEWSLETTER  
**IAA TODAY**

NEWS &gt; ANALYSIS &gt; COMMENTARY &gt; REGULATORY UPDATES FOR INVESTMENT ADVISERS

## IAA Submits Comment Letters on Cybersecurity, Beneficial Ownership, T+1

April 12, 2022

**Contact:**IAA Manager, Marketing & Communications [Meredith Wise](#).

**Washington, DC (April 12, 2022)** – Yesterday, the IAA submitted comments to the SEC on three major proposals affecting investment advisers.

**Cybersecurity Proposal.** We share and support the SEC's goals to enhance the preparedness and resiliency of investment advisers against cyber threats and protect investors from harm caused by cyber incidents. Advisers are already required to – and do – have cybersecurity policies and procedures. We therefore support the proposed cybersecurity risk management policies and procedures with recommended improvements.

We have significant concerns, however, about the proposed reporting of incidents to the Commission within 48 hours, as well as the details proposed to be included in public disclosures. While we generally support reporting and disclosure, we are concerned that these requirements, as proposed, would impede advisers' efforts to respond to cybersecurity incidents as they are occurring, provide a roadmap to threat actors, and impose unnecessary operational and compliance burdens. We made specific recommendations to the Commission to improve the proposal in these areas to achieve our shared goals while avoiding these unintended consequences.

As an initial matter, we believe that any reporting requirements should not be duplicative of or inconsistent with other breach notification requirements that advisers are subject to. Accordingly, the IAA strongly recommends that the Commission coordinate with other federal regulators towards adopting a uniform risk-based federal requirement for reporting cybersecurity and data breach incidents.

We believe that the Commission severely underestimates the costs and burdens that would be imposed on investment advisers, particularly smaller firms, by certain elements of the Proposal. Accordingly, we recommend that the Commission exclude smaller advisers from the reporting requirement altogether and also that the Commission undertake a more robust and accurate assessment of the costs, burdens, and economic effects that would be placed on advisers of all sizes, including a holistic assessment of the cumulative costs of existing and anticipated regulation on advisers.

The IAA remains committed to supporting efforts by the Commission to protect investors, other market participants, and the financial markets more broadly from the dangers presented by cybersecurity threats.

[View full comment letter.](#)

**Beneficial Ownership Modernization.** The SEC has proposed to modernize the beneficial ownership reporting regime for the securities markets. The proposal represents the first significant changes to the rules in decades.

The beneficial ownership reporting requirements under Section 13(d) of the Securities Exchange Act are intended to provide the public with "timely disclosures for informed investment decisions." Currently, if a person acquires beneficial ownership of more than five percent of a company, they have to disclose it on Schedule 13D within 10 days. If the person is a passive investor or not buying the stock for the purposes of control or influence, they can file a more abbreviated Schedule 13G within 45 days after the calendar year in which they acquired the triggering stock. The Rule 13g requirements are intended to provide a "comprehensive disclosure system of corporate ownership" for these beneficial owners. Among other changes, the Commission proposes to:

- Significantly accelerate the filing deadlines for Schedules 13D and 13G beneficial ownership reports
- Expand the application of these reporting requirements to cash-settled derivative securities
- Clarify the circumstances under which two or more persons have formed a "group" whose beneficial ownership will be aggregated for reporting purposes
- Require filing using a structured, machine-readable data language

We commend the Commission for its efforts to modernize these reporting requirements and support the Commission’s goal of increased transparency. We make substantive recommendations that we believe will better balance the goals of transparency and limiting regulatory burdens and unintended consequences:

- We believe that the accelerated timelines pose operational challenges and do not provide sufficient time for accurate and complete reporting. The short deadlines may also exacerbate free riding and front running. Accordingly, we make specific recommendations to change the proposed filing schedule to provide filers with a more reasonable amount of time, create consistency, and reduce unnecessary confusion. We provide a summary of our suggested modifications in Appendix A to our letter.
- We oppose deeming holders of certain cash-settled derivative securities to beneficially own the reference securities just as if they held such securities. This treatment of cash-settled derivatives is inapt, unclear, and inconsistent with the purpose behind the beneficial ownership reporting regime.
- We have significant concerns that the proposed definition of a “group” is overbroad and could chill valuable shareholder engagement, including relating to corporate accountability and sustainability issues. We make recommendations to address these concerns.

[View full comment letter.](#)

**T+1 Settlement Cycle.** The IAA supports the Commission’s recent proposal to shorten the standard settlement cycle for most broker-dealer transactions from two business days after the trade date (T+2) to one business day after the trade date (T+1). We agree with the Commission that these amendments can reduce the credit, market, and liquidity risks in securities transactions faced by market participants and U.S. investors and that the amendments can provide capital and operational efficiencies, including long-term reduction in costs for market participants and U.S. investors.

We offer several recommendations that we believe will better balance the Commission’s desire for information with the technical and operational realities of how investment advisers engage in securities trading and obtain and retain trading information. As the Commission considers the proposed changes, we also ask it to examine the impact the Proposal will have on small and mid-sized firms, which make up the vast majority of SEC-registered investment advisers.

The IAA also has concerns about statements in the Proposal indicating that the Commission’s goal is to shorten the settlement cycle further by achieving a same-day settlement cycle (T+0). We believe it is more pragmatic to reduce the settlement cycle in stages to ensure that the U.S. and global markets can adequately adapt. We also submit that shortening the settlement cycle to T+0 should not be considered until the Commission has allowed a T+1 settlement to be fully implemented and has gathered sufficient data to support taking that action.

[View full comment letter.](#)

—

As a whole, we continue to object to the short comment periods provided by the Commission on so many concurrent, complex, and important proposals. We urge the Commission to extend these comment periods, stagger the rulemakings, and provide time for thoughtful and thorough responses.

###

#### **About the Investment Adviser Association**

As the leading organization for fiduciary investment advisers, the IAA advances the interests of member firms by providing essential expertise, crucial connections, and powerful advocacy tailored to their needs. Together, the IAA’s members manage more than \$35 trillion in assets for a wide variety of clients, including individuals, trusts, investment companies, private funds, pension plans, state and local governments, endowments, foundations, and corporations. For more information, visit [investmentadviser.org](https://investmentadviser.org) or follow us on [LinkedIn](#), [Twitter](#), and [YouTube](#).

---

**More Stories /**

“The Workplace Must Become a Magnet” –  
Three Trends in the Future of Work

[Read More](#)

One Adviser’s Campaign for Diversity, Equity &  
Inclusion: How GW&K and its Employees Built a  
Program that Works

[Read More](#)

New SEC Marketing Rule Now Top Compliance  
Concern, Survey Shows

[Read More](#)

Adviser Industry Defies Pandemic, Sets New  
Growth Records

[Read More](#)

Washington, DC 20006

P: [\(202\) 293-4222](tel:(202)293-4222)

[iaaservices@investmentadviser.org](mailto:iaaservices@investmentadviser.org)



Sign Up for Email Updates

Email Address \*

Submit

© 2022 Investment Adviser Association. All Rights Reserved.

[Contact Us](#) | [IAA Careers](#) | [Privacy Policy](#) | [Terms of Use](#) | [Site Map](#) | [For Media](#)

[Website design and development by Ironistic](#)