Press Release

SEC Proposes Rule Changes to Prevent Misleading or Deceptive Fund Names

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Washington D.C., May 25, 2022 — The Securities and Exchange Commission today proposed amendments to enhance and modernize the Investment Company Act "Names Rule" to address changes in the fund industry and compliance practices that have developed in the approximately 20 years since the rule was adopted. A fund's name is an important marketing tool and can have a significant impact on investors' decisions when selecting investments, and the Names Rule addresses fund names that are likely to mislead investors about a fund's investments and risks. The proposal follows a request for comment the SEC issued to gather public feedback on potential reforms to the rule in March 2020.

"A lot has happened in our capital markets in the past two decades. As the fund industry has developed, gaps in the current Names Rule may undermine investor protection," said SEC Chair Gary Gensler. "In particular, some funds have claimed that the rule does not apply to them — even though their name suggests that investments are selected based on specific criteria or characteristics. Today's proposal would modernize the Names Rule for today's markets."

The Names Rule currently requires registered investment companies whose names suggest a focus in a particular type of investment (among other areas) to adopt a policy to invest at least 80 percent of the value of their assets in those investments (an "80 percent investment policy"). The proposed amendments would enhance the rule's protections by requiring more funds to adopt an 80 percent investment policy. Specifically, the proposed amendments would extend the requirement to any fund name with terms suggesting that the fund focuses in investments that have (or whose issuers have) particular characteristics. This would include fund names with terms such as "growth" or "value" or terms indicating that the fund's investment decisions incorporate one or more environmental, social, or governance factors. The amendments also would limit temporary departures from the 80 percent investment requirement and clarify the rule's treatment of derivative investments.

The proposing release will be published in the Federal Register. The comment period will remain open for 60 days after publication in the Federal Register.

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Related Materials

- Fact Sheet
- Chair Gensler Statement
- Proposed Rule