

## Statement

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# Statement on Proposed Updates to Names Rule



Chair Gary Gensler

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Today, the Commission is considering a proposal to update the Names Rule. I am pleased to support this proposal because, if adopted, it would modernize this key rule for today's markets and enhance the transparency of the asset management field.

A fund's name is often one of the most important pieces of information that investors use in selecting a fund. Thus, when first enacting the Investment Company Act of 1940, Congress included provisions about fund naming conventions. These provisions were amended in 1996 to authorize the Commission to define registered investment company names as "materially deceptive or misleading."[\[1\]](#)

Based on that authority from Congress, the agency adopted the Names Rule in 2001. Under the current Names Rule, if a registered investment company's name suggests it has a focus in particular investment types, industries, or geographies, or that it has tax-exempt status, the fund must adopt a policy to invest at least 80 percent of the value of its assets consistent with its name.

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. 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. Specifically, it would do four things:

- First, it would broaden the scope of the Names Rule's 80 percent requirement. The expanded requirement would apply to funds whose names suggest that they invest in issuers or investments with particular characteristics. This would include, for example, Environmental, Social, and Governance-related (ESG) fund names.
- Second, the proposal would require funds that "drift" below the 80 percent requirement to come back into compliance in a timely manner — in most cases, within 30 days.
- Third, it would enhance transparency around how a fund's investment methods match its name. Specifically, it would require a fund to disclose how it defines the terms in its name and selects investments in line with its name. It also would require a fund to indicate on existing Form N-PORT which holdings count toward the 80 percent requirement, and update recordkeeping processes around Names Rule compliance.

- Fourth, it would require funds to use the notional amount of derivatives, rather than the market value, for determining compliance with the 80 percent requirement. This is important as funds increasingly hold derivatives.

Furthermore, the proposal would make two changes with respect to the growing ESG funds space.

- First, it would specify that ESG-related fund names are subject to the 80 percent requirement because their names suggest that they invest in issuers or investments with particular characteristics.
- Second, it would specify that funds that consider ESG factors along with, but not more significantly than, other factors — sometimes called integration funds — cannot use ESG-related terms in their names.

I'm pleased to support today's proposals and, subject to Commission approval, look forward to the public's feedback.

I'd like to extend my gratitude to the members of the SEC staff who worked on this rule, including:

- Sarah ten Siethoff, Brian Johnson, Amanda Hollander Wagner, Mykaila DeLesDernier, Pamela Ellis, Brad Gude, Michael Kosoff, Sally Samuel, and Yoon Choo in the Division of Investment Management;
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[1] Rule 35d-1. See Final Rule: Investment Company Names [Release No. 24828], available at <https://www.sec.gov/rules/final/ic-24828.htm>.