

**MEMO# 30796**

July 21, 2017

# SEC Staff Issues FAQs on Fund Reporting Rules

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TO: ICI Members SUBJECTS: Disclosure

Fund Accounting & Financial Reporting RE: SEC Staff Issues FAQs on Fund Reporting Rules

Earlier this week, the Division of Investment Management of the Securities and Exchange Commission (“SEC” or “Commission”) issued the first set of frequently asked questions and answers (“FAQs”)[\[1\]](#) on the Commission’s fund reporting rules.[\[2\]](#) Many of the FAQs reflect questions and responses that ICI and its members suggested. The staff organized the FAQs into four broad categories: Compliance Dates and General Filing Obligations; Form N-PORT; Regulation S-X; and Form N-CEN. We highlight a few key takeaways in each of the categories, below.

## I. Compliance Dates and General Filing Obligations

The SEC staff addressed six questions in the compliance dates and general filing questions category. Within that category, the staff confirmed that the compliance dates for Form N-PORT, Form N-CEN, the amendments to Regulation S-X, and the new securities lending disclosures are based on reporting period-end dates.[\[3\]](#) This means, for example, that a fund that is part of larger investment company complex with a Form N-PORT compliance date of June 1, 2018 would file its first report on Form N-PORT, reflecting data as of June 30, 2018, no later than July 30, 2018.

The staff also confirmed that funds will no longer need to file reports on Form N-Q once they begin filing reports on Form N-PORT.[\[4\]](#) In addition, the staff clarified that funds with fiscal years ending on either April 30 or May 31, which are scheduled to make their Form N-SAR filing for the 2018 fiscal year end (due 60 days after the reporting period end) after the June 1, 2018 rescission date of that form, can either file their final report on Form N-SAR after June 1 or instead begin filing on Form N-CEN (due 75 days after the reporting period ends).[\[5\]](#) Separately, the staff highlighted that it has released the XML schemas that funds will use to prepare Form N-PORT and Form N-CEN filings on the SEC’s EDGAR system, and that test filings for those forms will be permitted beginning in September 2017.[\[6\]](#)

## II. Form N-PORT

The SEC staff included 15 FAQs in the Form N-PORT category. In one FAQ, the staff

explained that, for purposes of responding to Form N-PORT, it would not object if a fund distinguishes between the accounting basis on which it reports portfolio holdings and the basis on which it calculates risk metrics.<sup>[7]</sup> The staff believes that a fund that uses T+1 accounting for reporting portfolio holdings on Form N-PORT may calculate and report on a T+0 accounting basis the security- and portfolio-level risk metrics that the form requires, provided that the information is consistent with information that the fund reports internally and to current and prospective investors.

The staff also addressed other general filing and process questions about Form N-PORT. The staff explained that, although funds are required to file Form N-PORT within 30 days after the end of each month, they may file the Part F portfolio holdings exhibits for the end of the first and third quarters of the fiscal year within 60 days after the end of the period on new EDGAR submission types “NPORT-EX” and “NPORT-EX/A.”<sup>[8]</sup> Filing these exhibits would not cause the initial N-PORT filing to be marked as an amendment. Moreover, the SEC staff confirmed that the reports filed for the month ended December 31, 2018 would be the first Form N-PORT filings made public.<sup>[9]</sup>

The SEC staff also addressed questions about specific data items in Form N-PORT. The staff believes that, when identifying “restricted securities” under Item C.6 of the form, funds may consider the guidance the Commission has issued under Article 12 of Regulation S-X.<sup>[10]</sup> This would allow funds, among other things, to not mark as “restricted” securities subject to Rule 144A that can be resold to qualified institutional buyers at the report date. In another FAQ, the SEC staff acknowledged that funds may calculate the notional value of derivative instruments using different methods, including those set forth in Table 1 of the SEC’s derivatives proposing release.<sup>[11]</sup> The staff added, however, that funds should not delta-adjust the notional amount for options, as reflected in the table, because Form N-PORT separately requires delta and Article 12 of Regulation S-X specifically requires notional amount without a delta adjustment. In another FAQ, the staff clarified that funds may choose whether to report “to-be-announced” transactions or “TBAs” as derivatives, as long as the treatment is consistent with their treatment of TBAs in their portfolio holdings disclosures reported internally and to current and prospective investors.<sup>[12]</sup>

### **III. Regulation S-X**

The SEC staff included six FAQs regarding the presentation of derivative instruments, other investments, and investments in affiliates under Regulation S-X. In one FAQ, the staff clarified that funds could present financial information for these investments in a different order than the order of the columns set forth in Regulation S-X and explained that funds could combine columns when the columns contain the same information, as long as the heading clearly discloses what the information represents.<sup>[13]</sup> The staff also clarified that funds should identify a derivative instrument as “restricted” if, as of the balance sheet date, the fund would not have been able to exit the transaction.<sup>[14]</sup> In its explanation, the staff acknowledged that funds can exit derivative instruments without selling the instrument (*e.g.*, a negotiated agreement with the fund’s counterparty, a transfer to another party, or a close out of the position through execution of an offsetting transaction). In another FAQ, the staff stated that it would not object if funds disclose information regarding collateral held by others in connection with derivative instruments by counterparty, despite the requirement in Rule 6-04.6 of Regulation S-X that a fund must state these amounts separately by instrument type (*i.e.*, short sales, open option contracts, futures contracts, forward foreign currency contracts, swap contracts, and other types of investments).<sup>[15]</sup>

## IV. Form N-CEN

The SEC staff addressed three FAQs related to Form N-CEN. In one FAQ, the staff explained that, when reporting sub-transfer agent information in response to Item C.10.vii of Form N-CEN, a fund does not need to provide information on intermediaries (e.g., broker-dealers and retirement plan third-party administrators) that provide administrative services for customers in omnibus accounts.<sup>[16]</sup> The staff believes that such intermediary arrangements do not need to be reported because they are not part of the primary transfer agent's recordkeeping arrangement with the fund. In another FAQ, the staff confirmed that variable insurance products must continue to file annual reports on Form N-CEN even when the variable insurance product has ceased to file post-effective prospectus amendments.<sup>[17]</sup>

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### endnotes

<sup>[1]</sup> See *Investment Company Reporting Modernization Frequently Asked Questions* ("Fund Reporting FAQs"), available at <https://www.sec.gov/investment/investment-company-reporting-modernization-faq>. The provided responses represent the views of the SEC staff and are not a rule, regulation, or statement of the Commission, and the Commission has not approved or disapproved the FAQs or the interpretive answers to the FAQs.

<sup>[2]</sup> See *Investment Company Reporting Modernization*, SEC Release No. IC-32314 (Oct. 13, 2016), available at <https://www.gpo.gov/fdsys/pkg/FR-2016-11-18/pdf/2016-25349.pdf> ("Adopting Release"). For a detailed summary of the fund reporting rules, see ICI Memorandum No. 30331 (Oct. 21, 2016,) available at [https://www.ici.org/my\\_ici/memorandum/memo30331](https://www.ici.org/my_ici/memorandum/memo30331),

<sup>[3]</sup> See Fund Reporting FAQs, Compliance Dates and General Filing Obligations, Question 2.

<sup>[4]</sup> See Fund Reporting FAQs, Compliance Dates and General Filing Obligations, Question 4. The FAQs also address when money market funds will stop filing on Form N-Q confirming, among other matters, that a money market fund with a fiscal year-end of August 31 will make its final Form N-Q filing for the quarter ended May 31, 2019. See Fund Reporting FAQs, Compliance Dates and General Filing Obligations, Question 5.

<sup>[5]</sup> See Fund Reporting FAQs, Compliance Dates and General Filing Obligations, Question 6.

<sup>[6]</sup> See Fund Reporting FAQs, Compliance Dates and General Filing Obligations, Question 1. The schemas are available at <https://www.sec.gov/oit/Article/info-edgar-tech-specs.html>.

- [7] See Fund Reporting FAQs, Form N-PORT, Question 1.
- [8] See Fund Reporting FAQs, Form N-PORT, Question 2.
- [9] See Fund Reporting FAQs, Form N-PORT, Question 4.
- [10] See Fund Reporting FAQs, Form N-PORT, Question 10. See *also* Adopting Release, at n.669.
- [11] See Fund Reporting FAQs, Form N-PORT, Question 14. Table 1 of the derivatives proposing release sets forth various ways to compute notional value for several different types of derivative instruments. See *Use of Derivatives by Registered Investment Companies and Business Development Companies*, SEC Release No. IC-31933 at Table 1, available at <https://www.gpo.gov/fdsys/pkg/FR-2015-12-28/pdf/2015-31704.pdf>.
- [12] See Fund Reporting FAQs, Form N-PORT, Question 15.
- [13] See Fund Reporting FAQs, Regulation S-X, Question 1.
- [14] See Fund Reporting FAQs, Regulation S-X, Question 4.
- [15] See Fund Reporting FAQs, Regulation S-X, Question 6.
- [16] See Fund Reporting FAQs, Form N-CEN, Question 2.
- [17] See Fund Reporting FAQs, Form N-CEN, Question 3.