MEMO# 31708

April 10, 2019

SEC Staff Issues Liquidity FAQ on Extended Holiday Closures

[31708]

April 10, 2019 TO: ICI Members
Investment Company Directors SUBJECTS: Compliance
Disclosure
Exchange-Traded Funds (ETFs)
Fund Governance
Investment Advisers
Operations
Portfolio Oversight
Risk Oversight
Transfer Agency RE: SEC Staff Issues Liquidity FAQ on Extended Holiday Closures

Over the past couple of months, ICI Committee and Working Group calls and other industry forums have included discussions of whether securities that trade in markets closed for extended holidays (e.g., the Chinese New Year or Japan's upcoming holiday) should be reclassified—including into the illiquid bucket—under Rule 22e-4. Depending on a fund's view and the size of its exposure to such securities, this in turn could trigger reporting to the fund board and the SEC (on Form N-LIQUID) under the new liquidity framework if the fund holds more than 15% of its net assets in illiquid investments that are assets.[1]

Today, the SEC staff addressed this matter in new FAQ #34.[2] It states in full:

> "**34. Q. Some foreign markets have holiday closures of their securities markets that may last seven or more calendar days (an "extended holiday closure"). Funds are generally aware of these extended holiday closures in advance of the holiday. If a fund holds securities that are traded only in such a foreign market, would it need to file Form N-LIQUID solely because of such an extended holiday closure?**
>
> A. Under rule 22e-4 investments that cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment are defined as illiquid. As a result, investments affected by an extended holiday closure become temporarily illiquid under this rule. However, the staff believes that an anticipated extended holiday closure presents liquidity risk to a fund holding investments in those securities markets that differs from the liquidity risk N-

LIQUID is designed to flag. To the extent that investments become illiquid due solely to an extended holiday closure, they are illiquid for a known, temporary duration, and the fund can generally plan its liquidity risk management relating to the market closure in advance. Similarly, such a fund can notify relevant parties in advance, including its board of directors, of investments that will be affected by extended holiday closures and how it expects to manage its liquidity risk during such closures. The staff believes that such advance board notification would satisfy the board notification requirement of paragraph (b)(1)(iv)(A) of the rule. Accordingly, the staff would not object if a fund does not file Form N-LIQUID for an investment that becomes illiquid solely due to an extended holiday closure. Nonetheless, a fund should still consider the potential impacts of any market closure as part of its liquidity risk management program and manage the associated liquidity risk. [Apr. 10, 2019]"

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endnotes

[1] *See* Rule 22e-4(b)(1)(iv)(A), Rule 30b1-10, and Form N-LIQUID.

[2] *Available at* www.sec.gov/investment/investment-company-liquidity-risk-management-programs-faq.