

MEMO# 27848

January 16, 2014

SEC Staff Issues Guidance Update on Risk Management and Disclosure for Fixed Income

[27848]

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TO: CHIEF RISK OFFICER COMMITTEE No. 2-14
CLOSED-END INVESTMENT COMPANY MEMBERS No. 3-14
COMPLIANCE MEMBERS No. 2-14
INVESTMENT COMPANY DIRECTORS No. 1-14
RISK ADVISORY COMMITTEE No. 1-14
SEC RULES MEMBERS No. 4-14
SMALL FUNDS MEMBERS No. 1-14
FIXED-INCOME ADVISORY COMMITTEE No. 1-14 RE: SEC STAFF ISSUES GUIDANCE UPDATE ON RISK MANAGEMENT AND DISCLOSURE FOR FIXED INCOME

A recent IM Guidance Update [\[*\]](#) highlights the importance of sound risk management and disclosure practices by fixed income funds in light of the potential for volatility in these markets and reminds fund boards that they may want to consider discussing with fund advisers the steps advisers are taking in this area.

In the Guidance Update, the staff of the Securities and Exchange Commission's Division of Investment Management describes several risk management steps that fund advisers may consider, including: assessing fund liquidity needs during both normal and stressed environments; assessing the impact (beyond just liquidity) of various stress-tests and/or other scenarios on funds, such as those involving interest rate hikes, widening spreads, price shocks to fixed income products, increased volatility and reduced liquidity; and evaluating what risk management strategies and actions are most appropriate, if any, in response to changing fixed income market conditions at a fund and/or the complex level, including decisions around portfolio composition, concentrations, diversification and liquidity.

With respect to communications with fund boards, the Guidance Update states that "fund advisers may consider what information should be provided to fund directors so that they are informed of the risk exposures and liquidity position of the fund, and the fund's ability to manage through changing interest rate conditions and potentially increased fixed income market volatility."

Finally, the staff suggests that “funds should also assess the adequacy of their disclosures to shareholders in light of any additional risks due to recent events in the fixed income markets and the potential impact of tapering quantitative easing and/or rising interest rates, including the potential for periods of volatility and increased redemptions.”

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Securities Regulation - Investment Companies

endnotes

[*] US Securities and Exchange Commission, Division of Investment Management, Risk Management in Changing Fixed Income Market Conditions, IM Guidance Update No. 2014-1 (January 2014), available at <http://www.sec.gov/divisions/investment/guidance/im-guidance-2014-1.pdf>.

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