

MEMO# 31215

May 18, 2018

ICI Submits Comment Letter on SEC's Liquidity Disclosure Proposal

[31215]

May 18, 2018 TO: ICI Members

Investment Company Directors SUBJECTS: Compliance
Disclosure

Exchange-Traded Funds (ETFs)

Fund Accounting & Financial Reporting

Fund Governance

Investment Advisers

Operations

Portfolio Oversight

Risk Oversight

Transfer Agency RE: ICI Submits Comment Letter on SEC's Liquidity Disclosure Proposal

In March, the SEC voted in favor of proposing amendments to open-end funds' liquidity-related disclosures.[\[1\]](#) Most notably, the proposed amendments to Form N-PORT would eliminate the reporting of aggregated liquidity classification (or bucketing) information. This means that, if adopted, funds would not have to report any bucketing information to the public. Rather, funds would be required, in their annual reports to shareholders, to discuss the operation and effectiveness of their liquidity risk management programs during their most recently completed fiscal years.

Today ICI submitted a comment letter (attached below) that broadly supports each element of the SEC's proposal. In it, we:

- Strongly support elimination of public reporting of aggregated bucketing information, because such information by its nature is subjective, forward-looking, and hypothetical; publicly disclosing this information therefore risks confusing and misleading investors, particularly if used to compare funds.
- Support the SEC's public disclosure alternative, *i.e.*, shareholder report disclosure about the operation and effectiveness of a fund's liquidity risk management program, in narrative that is clear and useful to investors. However, we also recommend three modifications to this proposed item:
 - Relocation of this new item outside of Management's Discussion of Fund Performance (MDFP), because for most funds over most periods, liquidity does not have a strong connection to fund performance;

- Accommodation of those funds wishing to leverage their annual liquidity reporting to their boards for purposes of satisfying this shareholder report disclosure requirement; and
- Creation of exemptions for “primarily highly liquid funds” and In-Kind ETFs, because these funds have lower liquidity risk.
- Support the permissible (as opposed to required) “splitting” of an investment into multiple buckets in certain circumstances, to allow a fund the option of reporting the liquidity of its investments in a way that might better reflect its views.
- Support fund reporting of cash and cash equivalents not reported elsewhere on Form N-PORT, to enhance the SEC’s ability to monitor funds’ compliance with their highly liquid investment minimums.
- Strongly recommend that the SEC adopt a safe harbor within its liquidity framework, to protect funds from being penalized unfairly for generating, relying on, and reporting subjective, forward-looking, and hypothetical bucketing information.
- Address the Proposing Release’s questions about the Department of the Treasury’s recommendation that the SEC embrace a principles-based approach to bucketing, explaining the benefits of following this recommendation.
- Recommend that the SEC (i) provide funds with at least twelve months from the date of adoption to comply with the cash reporting and splitting items, and (ii) extend the compliance dates for the shareholder report disclosure, so that most funds would begin including this disclosure in shareholder reports for periods ended on or after December 31, 2019 (June 30, 2020 for smaller entities).

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[Attachment \(in .pdf format\)](#)

endnotes

[1] *Investment Company Liquidity Disclosure*, SEC Release No. IC-33046 (Mar. 14, 2018)(“Proposing Release”), available at www.sec.gov/rules/proposed/2018/ic-33046.pdf. See Institute [Memorandum No. 31136](#), dated March 16, 2018, for background and a detailed summary of the proposal.