

VIDEO

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Focus on Funds: Funds Prepare for Imminent Changes to Liquidity Management Rules

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New Securities and Exchange Commission rules governing fund liquidity will go into effect in a few months. In the October 26, 2018, edition of Focus on Funds, ICI Assistant General Counsel Matt Thornton details how fund complexes are preparing.

Transcript

Stephanie Ortballs-Tibbs, ICI director of media relations: Asset managers are in the middle of making major changes to how they measure and manage their funds' liquidity as they prepare to comply with the SEC's new liquidity management program, that's just a few months away from taking effect. Recently, I got an update on the work of the SEC, the industry, and the ICI from ICI's assistant general counsel Matt Thornton.

Matt Thornton, ICI assistant general counsel: The rule, as you know, was adopted in 2016. And since then, ICI has remained engaged with the SEC and members. And that has paid dividends in 2018.

For instance, in February, the SEC delayed portions of the rule by six months, including the bucketing provisions. In January and February, the SEC staff issued FAQs that we think will help with implementation, especially around bucketing. And finally, in June, the SEC adopted some disclosure amendments, which we think will provide more useful information to investors.

Ortbals-Tibbs: So this is still a very heavy lift, but this year, the SEC has taken a number of steps that somewhat lighten the load as we reach this compliance date.

Thornton: Correct. They're incremental changes, which we think will certainly help—the disclosure change in particular is gratifying, because now investors will get information about how programs actually operated, rather than the more subjective information that would not have been comparable across funds that they would have received. So kudos to

the SEC, but clearly there's still a lot of work in front of members.

Ortbals-Tibbs: Do we expect anything else to come out of the SEC before these dates start falling into place?

Thornton: Near term, probably not. In the latest adopting release, there was some indication that the SEC would return to the issue, but likely not until 2021 at the earliest. We could see some FAQs, but likely nothing that will significantly affect what any fund complexes need to be doing.

Ortbals-Tibbs: So Matt, knowing that the SEC is maybe "pens down" for now, what is ICI doing, and what are our members doing?

Thornton: Well, in addition to the SEC engagement, one of the real benefits to a large trade association is [that] it provides a forum for people to get together in different ways. Especially around this liquidity rule, given its complexity in how many areas within a firm it hits, members have really appreciated being able to gather in some form or fashion, talk through the key challenges, get insights from one another, and figure out ways to address those challenges.

Surveys are one way to do that. Clearly, some of the more complex aspects of the rule relate to bucketing, setting of highly liquid investment minimums. So by surveying, it gives members a chance to really benchmark their practices against one another to make sure they're more or less on the right track.

Additional Resources

- [ICI Viewpoints: Liquidity Risk Management Must Be Done Right](#)
- [ICI's Policy Work on Risk Management Issues](#)
- [Financial Stability Resource Center](#)