

June 2, 2015

## SEC Proposes More Frequent and Detailed Fund Holdings Disclosure, Website Delivery of Shareholder Reports

On May 20, 2015, the SEC proposed new and amended rules and forms (the “[Proposals](#)”) that, if adopted, will significantly broaden the type and scope of information reported by registered investment companies. The Proposals, which are summarized below, fall into five categories:

- New Form N-PORT, which would require registered investment companies to report detailed information about their monthly portfolio holdings and risk metrics to the SEC using a prescribed XML data format.
- New Rule 30e-3, which would permit registered investment companies to transmit periodic reports to their shareholders by making the reports and quarterly portfolio information accessible online.
- New Form N-CEN, which would require registered investment companies to report census-type information to the SEC annually, using a prescribed XML data format.
- Elimination of Forms N-Q and N-SAR, as well as amendments of certain other rules and forms.
- Amendments to Regulation S-X, which would require standardized, enhanced disclosure about derivatives in investment company financial statements consistent with Form N-PORT.

### *Form N-PORT*

Currently, registered investment companies report their complete portfolio holdings to the SEC each quarter in reports on Form N-Q (1st and 3rd fiscal quarters) and in reports on Form N-CSR (2nd and 4th fiscal quarters). The Proposals would rescind Form N-Q and adopt a new portfolio holdings reporting form, Form N-PORT, to be filed monthly by all registered investment companies (except money market funds) and unit investment trusts that operate as ETFs (each; a “fund”). Each fund’s Form N-PORT would be filed with the SEC no later than 30 days after the end of each month, with every third month’s report made publicly available by the SEC 60 days after the end of the fund’s most recent fiscal quarter. Form N-PORT is primarily designed for use by the SEC and its staff, and not for disclosing information directly to individual investors.

- Form N-PORT would include a fund’s entire portfolio holdings and would be filed electronically in a structured, XML format. Detailed information would be required with respect to each fund investment (e.g., type of investment, value, payoff profile, asset and issuer type, country of investment/issuer, fair value level, and whether the investment is a restricted security or an illiquid asset).
- Form N-PORT would expand significantly information about a fund’s investment in derivatives. Form N-PORT would disclose the characteristics, terms and conditions of each derivative contract that are important to understand the payoff profile of a fund’s investment in such contracts, as well as the exposures created or hedged in the fund. Form N-PORT would report the category of derivative that most closely represents the investment (e.g., forward, future, option, etc.) and the identity of the counterparty (including a central clearinghouse).
- Form N-PORT would include additional information concerning fund portfolio holdings and characteristics not currently required by Forms N-Q and N-CSR. Thus, Form N-PORT would include certain quantitative measurements of risk that measure a fund’s sensitivity to changing market conditions, such as changes in

asset prices, interest rates, or credit spreads. Form N-PORT also would require information relevant to an assessment of liquidity risk, including information about the market liquidity and pricing of portfolio investments, as well as information regarding fund flows. Further, Form N-PORT would require funds to provide monthly total returns, using existing standardized formulas, for each of the preceding three months and for each class of shares, as well as monthly net realized gains (or losses) and net changes in unrealized appreciation (or depreciation) attributable to derivatives.

- Form N-PORT would expand significantly disclosure about certain investment activities, including, repurchase agreements, reverse repurchase agreements and securities lending. For repurchase and reverse repurchase agreements, Form N-PORT would require funds to report the identity of the counterparty (or central counterparty), the terms of each transaction, and the category of investments that most closely represents the collateral. For securities lending, Form N-PORT would require funds to report the identity of each securities lending counterparty and the aggregate value of all securities on loan to each counterparty. Form N-PORT also would require funds to disclose, on an investment-by-investment level, information about securities on loan and the reinvestment of cash collateral that secures the loans.

### ***Rule 30e-3 Website Availability of Shareholder Reports***

Currently, funds satisfy semiannual and annual shareholder reporting requirements either by printing and mailing shareholder reports or by electronic delivery (for shareholders that have affirmatively consented to electronic delivery). Proposed Rule 30e-3 would permit, but not require, funds to satisfy shareholder reporting requirements by making the reports publicly available online. To rely on the rule, funds would be required to make the reports and the fund's quarterly portfolio holdings information available at a website address specified in a one-time notice to shareholders. In addition, shareholders must be able to opt out of online availability and, thereafter, to receive mailed paper copies of shareholder reports and fund quarterly portfolio holdings information.

### ***Form N-CEN***

The Proposals would rescind Form N-SAR and replace it with proposed Form N-CEN, which would require funds to report detailed census-type information on an annual basis, instead of semi-annually. Form N-CEN would streamline and update information currently reported to the SEC under Form N-SAR to reflect current SEC staff information needs and developments in the industry, including detailed information about exchange-traded funds, closed-end funds and securities lending activities. Form N-CEN would be filed with the SEC using a structured, XML data format.

### ***Amendments to Regulation S-X***

Regulation S-X prescribes the form and content of financial statements required in registration statements and shareholder reports. Currently, Regulation S-X does not prescribe specific information in fund financial statements for most types of derivatives, including swaps, futures, and forwards. The Proposals would amend Regulation S-X to require standardized and enhanced disclosure regarding derivatives in a manner that is comparable to the information that would be required for reports on proposed Form N-PORT. Thus, the amendments would result in new schedules for open futures contracts, open forward foreign currency contracts, open swap contracts, and investments other than those specifically covered in the other schedules, and additional disclosure requirements for purchased and written option contracts. In addition, the proposed amendments to Regulation S-X would require that derivative disclosures be given "prominent placement" in financial statements rather than being placed in notes to financial statements. Special provisions would apply where a derivative's reference instrument is a basket or index of investments, especially if the derivative's notional amount represents more than 1% of the fund's NAV.

### ***Rescission of Form N-Q and Amendments to Form N-CSR Certifications***

Because proposed Form N-PORT would render Form N-Q unnecessary, the Proposals would rescind Form N-Q. Rescission of Form N-Q would eliminate certifications, arising from the SEC's implementation of the Sarbanes-Oxley Act of 2002, as to the accuracy of the portfolio schedules reported for the first and third fiscal quarters. To fill

this gap, the Proposals would amend the form of certification in Form N-CSR to require each certification to cover the most recent fiscal half-year, rather than the fund's most recent fiscal quarter.

### ***Compliance Dates***

#### ***Form N-PORT, Rescission of Form N-Q, and Amendments to the Certification Requirements of Form N-CSR***

Funds that, together with other funds in the same "group of related investment companies;" hold net assets of at least \$1 billion would have 18 months after the effective date to comply. Smaller groups of related investment companies would have 30 months after the effective date to comply.

#### ***Rule 30e-3 Website Availability of Shareholder Reports***

Funds could rely on the rule immediately after the effective date.

#### ***Form N-CEN and Rescission of Form N-SAR***

Funds would have 18 months after the effective date to comply.

#### ***Regulation S-X and Related Amendments***

Funds would have eight months after the effective date to comply.

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The Proposals, if adopted, will significantly increase fund reporting burdens. In addition, the Proposals suggest that the SEC may be attempting to increase its role as prudential regulator of funds. We expect there to be a substantial number of comments to the Proposals from various industry participants and other interested parties. Comments to the Proposals are due to the SEC 60 days after the Proposals are published in the Federal Register.