SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 200, 210, 230, 232, 239, 240, 249, 270, 274

Release Nos. 33-9776; 34-75002; IC-31610; File No. S7-08-15

RIN 3235-AL42

Investment Company Reporting Modernization

AGENCY: Securities and Exchange Commission.

ACTION: Proposed rule.

SUMMARY: The Securities and Exchange Commission is proposing new rules and forms as well as amendments to its rules and forms to modernize the reporting and disclosure of information by registered investment companies. The Commission is proposing new Form N-PORT, which would require certain registered investment companies to report information about their monthly portfolio holdings to the Commission in a structured data format. In addition, the Commission is proposing amendments to Regulation S-X, which would require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The Commission is also proposing new rule 30e-3, which would permit but not require registered investment companies to transmit periodic reports to their shareholders by making the reports accessible on a website and satisfying certain other conditions. The Commission is proposing new Form N-CEN, which would require registered investment companies, other than face amount certificate companies, to annually report certain census-type information to the Commission in a structured data format. Finally, the Commission is proposing to rescind current Forms N-Q and N-SAR

and to amend certain other rules and forms. Collectively, these amendments would, among other things, improve the information that the Commission receives from investment companies and assist the Commission, in its role as primary regulator of investment companies, to better fulfill its mission of protecting investors, maintaining fair, orderly and efficient markets, and facilitating capital formation. Investors and other potential users could also utilize this information to help investors make more informed investment decisions.

DATES: Comments should be received on or before [insert date 60 days after publication in the *Federal Register*].

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (*http://www.sec.gov/rules/proposed.shtml*);
- Send an email to *rule-comments@sec.gov*. Please include File No. S7-08-15 on the subject line; or
- Use the Federal eRulemaking Portal (*http://www.regulations.gov*). Follow the instructions for submitting comments.

Paper comments:

- Send paper comments to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number S7-08-15. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post

all comments on the Commission's Internet website (*http://www.sec.gov/rules/proposed.shtml*). Comments are also available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information you wish to make available publicly.

Studies, memoranda, or other substantive items may be added by the Commission or staff to the comment file during this rulemaking. A notification of the inclusion in the comment file of any such materials will be made available on the Commission's website. To ensure direct electronic receipt of such notifications, sign up through the "Stay Connected" option at www.sec.gov to receive notifications by email.

FOR FURTHER INFORMATION CONTACT: Daniel K. Chang, Senior Counsel, J. Matthew DeLesDernier, Senior Counsel, Jacob D. Krawitz, Senior Counsel, Andrea Ottomanelli Magovern, Senior Counsel, Michael C. Pawluk, Branch Chief, or Sara Cortes, Senior Special Counsel, at (202) 551-6792, Investment Company Rulemaking Office, Alan Dupski, Assistant Chief Accountant, Chief Accountant's Office, at (202) 551-6918, Division of Investment Management, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-8549.

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission (the "Commission") is proposing for comment new Form N-PORT [referenced in 17 CFR 274.150], new Form N-CEN [referenced in 17 CFR 274.101] under the Investment Company Act of 1940 [15 U.S.C. 80a-1 *et seq.*] ("Investment Company

Act"); new rules 30a-4 [17 CFR 270.30a-4], 30b1-9 [17 CFR 270.30b1-9] and 30e-3 [17 CFR 270.30e-3] under the Investment Company Act; rescission of rules 30b1-1 [17 CFR 270.30b1-1], 30b1-2 [17 CFR 270.30b1-2], 30b1-3 [17 CFR 270.30b1-3], and 30b1-5 [17 CFR 270.30b1-5] under the Investment Company Act; amendments to rules 8b-16 [17 CFR 270.8b-16], 8b-33 [17 CFR 270.8b-33], 10f-3 [17 CFR 270.10f-3], 30a-1 [17 CFR 270.30a-1], 30a-2 [17 CFR 270.30a-2], 30a-3 [17 CFR 270.30a-3], and 30d-1 [17 CFR 270.30d-1] under the Investment Company; amendments to Forms N-1A [referenced in 17 CFR 274.11A], N-2 [referenced in 274.11a-1], N-3 [referenced in 274.11b], N-4 [referenced in 17 CFR 274.11c], and N-6 [referenced in 17 CFR 274.11d] under the Investment Company Act and the Securities Act of 1933 [15 U.S.C. 77a *et seq.*] ("Securities Act"); amendments to rule 498 [17 CFR 230.498] and Form N-14 [referenced in 17 CFR 239.23] under the Securities Act; rescission of Form N-SAR [referenced in 17 CFR 274.101 and Form N-Q [referenced in 17 CFR 274.130] and amendments to Form N-CSR [referenced in 17 CFR 274.128] under the Investment Company Act and Securities Exchange Act of 1934 [15 U.S.C. 78a *et seq.*] ("Exchange Act"); amendments to rules 10A-1 [17 CFR 240.10A-1], 12b-25 [17 CFR 240.12b-25], 13a-10 [17 CFR 240.13a-10], 13a-11 [17 CFR 240.13a-11], 13a-13 [17 CFR 240.13a-13], 13a-16 [17 CFR 240.13a-16], 14a-16 [17 CFR 240.14a-16]; 15d-10 [17 CFR 240.15d-10], 15d-11 [17 CFR 240.15d-11], 15d-13 [17 CFR 240.15d-13], and 15d-16 [17 CFR 240.15d-16] under the Exchange Act; rescission of section 332 [17 CFR 249.332] and amendments to sections 322 [17 CFR 249.322] and 330 [17 CFR 249.330] of 17 CFR Part 249; amendments to Article 6 [17 CFR 210.6-01 *et seq.*] and Article 12 [17 CFR 210.12-01 *et seq.*] of Regulation S-X [17 CFR 210];

amendments to section 800 of 17 CFR Part 200 [17 CFR 200.800]; and amendments to rules 105 [17 CFR 232.105], 301 [17 CFR 232.301], and 401 [17 CFR 232.401] of Regulation S-T [17 CFR 232].

TABLE OF CONTENTS

I. BACKGROUND

A. Changes in the Industry and Technology

As the primary regulator of the asset management industry, the Commission relies on information included in reports filed by registered investment companies ("funds")[1] and investment advisers for a number of purposes, including monitoring industry trends, informing policy and rulemaking, identifying risks, and assisting Commission staff in examination and enforcement efforts. Over the years, however, as assets under management and complexity in the industry have grown, so too has the volume and complexity of information that the Commission must analyze to carry out its regulatory duties.

Commission staff estimates that there were approximately 16,619 funds registered with the Commission, as of December 2014.[2] Commission staff further estimates that there were about 11,500 investment advisers registered with the Commission, along with another 2,845 advisers that file reports with the Commission as exempt reporting advisers, as of January 2015.[3] At year-end 2014, assets of registered investment

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[1] For purposes of the preamble of this release, we use "funds" to mean registered investment companies other than face amount certificate companies and any separate series thereof—*i.e.*, management companies and unit investment trusts. In addition, we use the term "management companies" or "management investment companies" to refer to registered management investment companies and any separate series thereof. We note that "fund" may be separately and differently defined in each of the proposed new forms or rules, or proposed rule or form amendments.

[2] Based on data obtained from the Investment Company Institute. *See* www.ici.org/research/stats.

[3] Based on Investment Adviser Registration Depository system data. In 2010, Congress charged the Commission with implementing new reporting and registration requirements for certain investment advisers to private funds (known as "exempt reporting advisers"). *See* Pub. L. No. 111-203, 124 Stat. 1376, 1570–80.

companies exceeded $18 trillion, having grown from about $4.7 trillion at the end of 1997.[4] At the same time, the industry has developed new product structures, such as exchange-traded funds ("ETFs")[5], new fund types, such as target date funds with asset allocation strategies,[6] and increased its use of derivatives and other alternative strategies.[7]

Form ADV is used by registered investment advisers to register with the Commission and with the states and by exempt reporting advisers to report information to the Commission. Information on Form ADV is available to the public through the Investment Adviser Public Disclosure System, which allows the public to access the most recent Form ADV filing made by an investment adviser and is available at http://www.adviserinfo.sec.gov. Today, in a contemporaneous release, we are proposing a limited set of amendments to Form ADV and certain rules under the Advisers Act to fill certain data gaps and to enhance current reporting requirements, to incorporate "umbrella registration" for private fund advisers, and to make clarifying, technical and other amendments. *See* Amendments to Form ADV and Investment Advisers Act Rules, Investment Advisers Act Release No. 4091 (May 20, 2015).

4 *See* INVESTMENT COMPANY INSTITUTE, 2015 INVESTMENT COMPANY FACT BOOK 9 (55th ed., 2015) ("2015 ICI Fact Book"), *available at* http://www.ici.org/research/stats/factbook.

5 *See generally* Exchange-Traded Funds, Securities Act Release No. 8901 (Mar. 11, 2008) [73 FR 14618, 14619 (Mar. 18, 2008)] ("ETF Proposing Release"); *see also* http://www.ici.org/etf_resources/research/etfs_03_15 (discussing March 2015 statistics on ETFs). As of March 2015, there were over 1400 ETFs with over $2 trillion in assets. In the period of March 2014 to March 2015, assets of ETFs increased $352.43 billion or 20.6%. *See id.*

6 *See generally* Investment Company Advertising: Target Date Retirement Fund Names and Marketing, Securities Act Release No. 9126 (June 16, 2010) [75 FR 35920 (June 23, 2010)] ("Investment Company Advertising Release").

7 *See generally* Use of Derivatives by Investment Companies Under the Investment Company Act of 1940, Investment Company Act Release No. 29776 (Aug. 31, 2011) [76 FR 55237 (Sept. 7, 2011)] ("Derivatives Concept Release"); International Swaps and Derivatives Association ("ISDA") Study, *Size and Uses of the Non-Cleared Derivatives Market* (Apr. 2014), *available at* http://www2.isda.org/attachment/NjQ0MA==/FINAL%20-%20Size%20and%20Uses%20of%20the%20Non-Cleared%20Derivatves%20Market.pdf (noting increases in the use of inflation swaps by asset managers and other investors); ISDA Research Study, *Dispelling Myths: End-User Activity in OTC Derivatives* (Aug. 2014), *available at* http://www2.isda.org/attachment/Njc2Nw==/ISDA-Dispelling%20myths-final.pdf (noting levels of derivative usage by surveyed American and French asset managers of 27% in 2011 and 53% in 2013, respectively, with 98% of total gross notional exposure of surveyed UK hedge funds related to derivatives in 2013; Sam Diedrich, *'Alternative' or 'Hedged' Mutual Funds: What Are They, How Do They Work, and Should You Invest?*, (Feb. 28, 2014), *available at* http://www.forbes.com/sites/samdiedrich/2014/02/28/alternative-or-hedged-mutual-funds-what-are-they-how-do-they-

These products and strategies can offer greater opportunities for investors to achieve their investment goals, but they can also add complexity to funds' investment strategies, amplify investment risk, or have other risks, such as counterparty credit risk.

While these changes have been taking place in the fund industry, there has also been a significant increase in the use of the Internet as a tool for disseminating information and advances in the technology that can be used to report and analyze information. As discussed below, we have allowed the use of the Internet as a platform for providing required disclosure to investors. We have also started to use structured and interactive data formats to collect, aggregate, and analyze data reported by registrants and other filers. These data formats for information collection have enabled us and other data users, including investors and other industry participants, to better collect and analyze reported information and have improved our ability to carry out our regulatory functions.

We have historically acted to modernize our forms and the manner in which information is filed with the Commission and disclosed to the public in order to keep up with changes in the industry and technology. For example, in 1985, the Commission replaced five different reporting forms with Form N-SAR, which was designed to require reporting of data in a structured manner so that the Commission could construct a comprehensive database of information about the fund industry.[8] In 2000, we adopted new rules and rule amendments under the Investment Advisers Act of 1940 ("Advisers Act") to require advisers registered with the Commission to make filings under the

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work-and-should-you-invest/ (noting that "alternative mutual fund products grew at a neck-breaking 43% [in 2013]….").

[8] *See* Semi-Annual Report Form for Registered Investment Companies, Exchange Act Release No. 21633 (Jan. 4, 1985) [50 FR 1442 (Jan. 11, 1985)]. Reports on Form N-SAR are publicly available on the Commission's EDGAR website.

Advisers Act with the Commission electronically through the Investment Adviser Registration Depository (IARD).[9] In 2007, we sought to enhance the ability of investors to make informed voting decisions and to expand the use of the Internet to ultimately lower the costs of proxy solicitations by requiring Internet availability of proxy materials.[10]

In 2009, we amended Form N-1A, the registration form for open-end funds, to enhance the information provided to investors by requiring these funds to include a summary of key information in the front of their prospectuses.[11] The 2009 amendments to Form N-1A also sought to harness the benefits of technological advances and increased Internet usage by allowing mutual funds to satisfy their prospectus delivery obligations by delivering a summary prospectus to investors and posting the statutory prospectus and other materials on an Internet website.

Also in 2009, the Commission sought to take advantage of new technology by adopting amendments requiring open-end funds to file their prospectus risk/return summaries in eXtensible Business Reporting Language ("XBRL").[12] In doing so, the

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9 *See* Electronic Filing by Investment Advisers; Amendments to Form ADV, Investment Advisers Act Release No. 1897 (Sept. 12, 2000) [65 FR 57438 (Sept. 22, 2000)].

10 *See* Shareholder Choice Regarding Proxy Materials, Investment Company Act Release No. 27911 (July 26, 2007) [72 FR 42222 (Aug. 1, 2007)].

11 *See* Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Investment Company Act Release No. 28584 (Jan. 13, 2009) [74 FR 4546 (Jan. 26, 2009)].

12 *See* Interactive Data for Mutual Fund Risk/Return Summary, Investment Company Act Release No. 28617 (Feb. 11, 2009) [74 FR 7748 (Feb. 19, 2009)]. Just prior to adopting the XBRL requirements for mutual fund risk/return summaries, the Commission also adopted amendments requiring operating companies to provide their financial statement information in XBRL format. *See* Interactive Data to Improve Financial Reporting, Securities Act Release No. 33-9002 (Jan. 30, 2009) [74 FR 6776 (Feb. 10, 2009)]. In adopting these requirements, the Commission noted that "[i]n this format, financial statement information

Commission noted that this interactive data format would make "risk/return summary information easier for investors to analyze [and] assist in automating regulatory filings and business information processing." Additionally, in 2010, the Commission adopted Form N-MFP, which requires money market funds to report detailed portfolio holdings information on a monthly basis in Extensible Markup Language ("XML").[13] Because these disclosures and reports are filed in a structured data format using XBRL or XML, Commission staff, investors and other potential users are able to aggregate and analyze the data in a much less labor-intensive manner than plain text or hypertext filing formats would allow. The Commission also now uses the XML data format to collect and analyze certain information from advisers to private funds on Form PF[14] and has modernized the reporting of securities holdings by institutional investment managers on Form 13F,[15] which we believe resulted in efficiencies for data users.[16]

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could be downloaded directly into spreadsheets, analyzed in a variety of ways using commercial off-the-shelf software, and used within investment models in other software formats." *Id.*

13 *See* Money Market Fund Reform, Investment Company Act Release No. 29132 (Feb. 23, 2010) [75 FR 10060, 10082 (Mar. 4, 2010)] ("Money Market Fund Reform 2010 Release"); *see also* Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 31166 (July 23, 2014) [79 FR 47736 (Aug. 14, 2014)] ("Money Market Fund Reform 2014 Release") (adopting amendments to Form N-MFP). The information in Form N-MFP allows the Commission, investors, and other potential users to monitor compliance with rule 2a-7 and to better understand and monitor the underlying risks of money market fund portfolios. Additionally, pursuant to the 2010 and 2014 amendments, money market funds are required to disclose certain information, including portfolio holdings, on their websites.

14 *See* Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, Investment Advisers Act Release No. 3308 (Oct. 31, 2011) [76 FR 71228 (Nov. 16, 2011)] ("Form PF Adopting Release").

15 *See* Adoption of Updated EDGAR Filer Manual, Securities Act Release No. 9403 (May 14, 2013) [78 FR 29616 (May 21, 2013)].

16 The Commission has also proposed and adopted XML data reporting requirements in other contexts. *See, e.g.,* Mandated Electronic Filing and Website Posting For Forms 3, 4 and 5,

As these industry changes and technological advances have occurred over the years, we recognize a need to improve the type and format of the information that funds provide to us and to investors. We also recognize the need to improve the information that the Commission receives from funds in order to improve the Commission's monitoring of the fund industry in its role as the primary regulator of funds and investment advisers. As discussed below, today we are proposing a set of reporting and disclosure reforms designed to take advantage of the benefits of advanced technology and to modernize the fund reporting regime in order to help the Commission, investors, and other market participants better assess different fund products and to assist us in carrying out our mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. Our proposed reforms seek to (1) increase the transparency of fund portfolios and investment practices both to the Commission and to investors, (2) take advantage of technological advances both in terms of the manner in which information is reported to the Commission and how it is provided to investors and other potential users, and (3) where appropriate, reduce duplicative or otherwise unnecessary reporting burdens on the industry.

Securities Act Release No. 8230 (May 7, 2003) [68 FR 27588 (May 13, 2003)]; Electronic Filing and Revision of Form D, Securities Act Release No. 8891 (Feb. 6, 2008) [73 FR 10592 (Feb. 27, 2008)]; Electronic Filing of Transfer Agent Forms, Securities Exchange Act Release No. 54864 (Dec. 4, 2006) [71 FR 74698 (Dec. 12, 2006)]; Asset-Backed Securities Disclosure and Registration, Securities Act Release No. 9638 (Sept. 4, 2014) [79 FR 57184 (Sept. 24, 2014)]; Crowdfunding Securities Act Release No. 9470 (Oct. 23, 2013) [78 FR 66428 (Nov. 5, 2013)]; Proposed Rule Amendments for Small and Additional Issues Exemptions Under Section 3(b) of the Securities Act, Securities Act Release No. 9497 (Dec. 18, 2013) [79 FR 3926 (Jan. 23, 2014)]. *See generally* Recommendations of the Investor Advisory Committee Regarding the SEC and the Need for the Cost Effective Retrieval of Information by Investors (July 25, 2013), *available at* http://www.sec.gov/spotlight/investor-advisory-committee-2012/data-tagging-resolution-72513.pdf.

We also note that in December 2014, the Financial Stability Oversight Council ("FSOC") issued a notice requesting comment on aspects of the asset management industry, which includes, among other entities, registered investment companies.[17] The notice included requests for comment on additional data or information that would be helpful to regulators and market participants. Although this rulemaking proposal is independent of FSOC, several commenters responding to the notice discussed issues concerning data that are relevant to the rules we are proposing today, including data regarding derivatives, global identifiers, and securities lending activities and are cited in the discussions below, as relevant.[18]

B. Changes to Current Reporting Regime

1. Form N-PORT, Amendments to Regulation S-X, and Option for Website Transmission of Shareholder Reports

Currently, management investment companies (other than small business investment companies ("SBICs")) are required to report their complete portfolio holdings to the Commission on a quarterly basis.[19] These funds are required to provide this

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17 Financial Stability Oversight Council, Notice Seeking Comment on Asset Management Products and Activities, Docket No. FSOC-2014-0001 ("FSOC Notice"), *available at* http://www.treasury.gov/initiatives/fsoc/rulemaking/Documents/Notice%20Seeking%20Comment%20on%20Asset%20Management%20Products%20and%20Activities.pdf.

18 Comments submitted in response to the FSOC Notice are available at http://www.regulations.gov/#!docketDetail;D=FSOC-2014-0001. We also note that, in addition to commenters that argued for additional specific disclosures by funds, several commenters asserted, as a general matter, that registered funds are currently subject to robust disclosure requirements. *See, e.g.*, Comment Letter of the Investment Company Institute to the FSOC Notice (Mar. 25, 2015); Comment Letter of Federated Investors, Inc. to the FSOC Notice (Mar. 10, 2015); Comment Letter of the Capital Group Companies to the FSOC Notice (Mar. 25, 2015).

19 *See* Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, Securities Act Release No. 8393 (Feb. 27, 2004) [69 FR 11244 (Mar. 9, 2004)] ("Quarterly Portfolio Holdings Adopting Release").

information in reports on Form N-Q under the Investment Company Act and the Exchange Act as of the end of each first and third fiscal quarter,[20] and in reports on Form N-CSR under those Acts as of the end of each second and fourth fiscal quarter.[21]

As discussed in Parts II.A and II.B of this release, we propose to rescind Form N-Q and adopt a new portfolio holdings reporting form, Form N-PORT, which would be filed by all registered management investment companies and unit investment trusts ("UITs") that operate as ETFs,[22] other than money market funds and SBICs.[23] We are proposing that reports on Form N-PORT would be filed with the Commission on a monthly basis, with every third month available to the public 60 days after the end of the fund's fiscal quarter. The reports on Form N-PORT would include a fund's complete portfolio holdings in a structured data format. Additionally, as discussed below, proposed Form N-PORT would include additional information concerning fund portfolio holdings that are not currently provided on Forms N-Q and N-CSR, but that would facilitate risk analyses and other Commission oversight. For example, Form N-PORT would require reporting of additional information relating to derivative investments. It would also include certain risk metric calculations that would measure a fund's exposure

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20 Rule 30b1-5 under the Investment Company Act [17 CFR 270.30b1-5]. While SBICs file reports on Form N-CSR, SBICs are not required to file reports on Form N-Q.

21 *See* rule 30b2-1 under the Investment Company Act [17 CFR 270.30b2-1].

22 Under the proposal, all ETFs would be required to file reports on Form N-PORT, regardless of whether they are organized as management companies or UITs. UITs are a type of investment company which (a) are organized under a trust indenture contract of custodianship or agency or similar instrument, (b) do not have a board of directors, and (c) issue only redeemable securities. *See* section 4(2) of the Investment Company Act.

23 Money market funds file reports on Form N-MFP on a monthly basis and, thus, would not be required to file reports on Form N-PORT.

and sensitivity to changing market conditions, such as changes in asset prices, interest rates, or credit spreads.

We believe that more timely and frequent reporting of portfolio holdings information, as well as the additional information we are proposing to require, would enable the Commission to further its mission to protect investors by assisting the Commission and Commission staff in carrying out its regulatory responsibilities related to the asset management industry. These responsibilities include its examination, enforcement, and monitoring of funds, the Commission's formulation of policy, and the staff's review of fund registration statements and disclosures.

While Form N-PORT is primarily designed to assist the Commission and Commission staff, we believe that information in Form N-PORT would be beneficial to investors and other potential users. In particular, we believe that both sophisticated institutional investors and third-party users that provide services to investors may find the information we propose to require on Form N-PORT useful. For example, Form N-PORT's structured format would allow the Commission, investors, and other potential users to better collect and analyze portfolio holdings information. The portfolio holdings information currently filed on Form N-Q, in contrast, is filed in a plain text or hypertext format, which often requires labor-intensive manual reformatting by Commission staff and other potential users in order to prepare the reported data for analysis. While we do not anticipate that many individual investors would analyze data using Form N-PORT, although some may, we believe that individual investors would benefit indirectly from the information collected on reports on Form N-PORT, through enhanced Commission

monitoring and oversight of the fund industry and through analyses prepared by third-party service providers.

In addition, we are proposing amendments to Regulation S-X that would require standardized enhanced derivatives disclosures in fund financial statements, as well as other amendments. Currently, Regulation S-X does not prescribe specific information for most types of derivatives, including swaps, futures, and forwards. While we recognize that many fund groups provide disclosures regarding the terms of their derivatives contracts, the lack of standard disclosure requirements has resulted in inconsistent disclosures in fund financial statements.

We believe our proposed amendments to Regulation S-X to enhance and standardize derivatives disclosures in financial statements would allow comparability among funds and help all investors better assess funds' use of derivatives. We are proposing to require reports on Form N-PORT to contain similar derivatives disclosures to facilitate analysis of derivatives investments across funds. Because Form N-PORT is not primarily designed for individual investors, the proposed amendments to Regulation S-X would require disclosures concerning the fund's investments in derivatives, as well as other disclosures related to liquidity and pricing of investments, in the financial statements that are provided to investors. We have endeavored to mitigate burdens on the industry by conforming the derivatives disclosures that would be required by both Regulation S-X and Form N-PORT.

Finally, we are also proposing a rule that would provide funds with an optional method to satisfy shareholder report transmission requirements by posting such reports online if they meet certain conditions. In order to rely on the rule, funds would be

required to make the report and other required materials publicly accessible and free of charge at a website address specified in a notice to shareholders, and meet certain conditions relating to shareholder consent, and notice to shareholders of the website availability of shareholder reports and of the methods by which shareholders would be able to request a paper copy of the materials. This optional method is intended to modernize the manner in which periodic information is transmitted to shareholders, which we believe would improve the information's overall accessibility while reducing burdens such as the costs associated with printing and mailing shareholder reports.

2. Form N-CEN

Currently, the Commission collects census-type information on management investment companies and UITs on reports on Form N-SAR.[24] As discussed above, Form N-SAR was adopted in 1985 and, at that time, was intended to reduce reporting burdens and better align the information that was required to be reported with the characteristics of the fund industry. While Commission staff has indicated that the census-type information reported on Form N-SAR is useful in its support of the Commission's regulatory functions, staff has also indicated that in the thirty years since Form N-SAR's adoption, changes in the industry have reduced the utility of some of the currently required data elements. Additionally, the filing format that is required for reports on Form N-SAR limits our ability to use the reported information for analysis. Commission staff also believes that obtaining certain additional census-type information

[24] *See* rules 30a-1 and 30b1-1 under the Investment Company Act [17 CFR 270.30a-1 and 17 CFR 270.30b1-1].

not currently collected by Form N-SAR would improve the staff's ability to carry out regulatory functions, including risk monitoring and analysis of the industry.

Accordingly, we are proposing to rescind Form N-SAR and replace it with Form N-CEN, a new form on which funds will report census-type information to the Commission. Form N-CEN would include many of the same data elements as Form N-SAR, but, in order to improve the quality and utility of information reported, would replace those items that are outdated or of limited usefulness with items that we believe to be of greater relevance today. Where possible, we are also proposing to eliminate items that are reported on other Commission forms, or are available elsewhere. In addition, we are proposing to require that reports on Form N-CEN be filed in a structured XML format, which, we believe, could reduce reporting burdens for current Form N-SAR filers and yield data that can be used more effectively by the Commission and other potential users. Finally, we are proposing that reports on new Form N-CEN be filed annually, rather than semi-annually as is required for reports on Form N-SAR by management companies, which would further reduce current burdens on funds.

II. DISCUSSION

A. Form N-PORT

As discussed above, we are proposing to create a new monthly portfolio reporting form, Form N-PORT. Our proposal would require registered management investment companies and ETFs organized as UITs, other than money market funds and SBICs, to electronically file with the Commission monthly portfolio investments information on new Form N-PORT in an XML format no later than 30 days after the close of each

month.[25] As discussed below in Part II.A.4, only information reported for the third month of each fund's fiscal quarter on Form N-PORT would be publicly available, and that information would not be made public until 60 days after the end of the fiscal quarter.[26]

As the primary regulator of the fund industry, the Commission relies on information that funds file with us, including their registration statements, shareholder reports, and various reporting forms such as Form N-SAR, Form N-CSR, and Form N-Q. The Commission and its staff use this information to understand trends in the fund industry and carry out regulatory responsibilities, including formulating policy and guidance, reviewing fund registration statements, and assessing and examining a fund's regulatory compliance with the federal securities laws and Commission rules thereunder.

Information on fund portfolios is currently filed with the Commission quarterly with up to a 70-day delay.[27] Moreover, the reports are currently filed in a format that does not allow for efficient searches or analyses across portfolios, and even limits the

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[25] *See* proposed rule 30b1-9.

[26] As used throughout this section, the term "fund" generally refers to investment companies that would file reports on Form N-PORT.

[27] Funds currently file with the Commission portfolio schedules for the fund's first and third fiscal quarters on Form N-Q, and shareholder reports, including portfolio schedules for the fund's second and fourth fiscal quarters, on Form N-CSR. These reports are available to the public and the Commission with either a 60- or 70-day delay. *See* rule 30b1-5 (requiring management companies, other than SBICs, to file reports on Form N-Q no more than 60 days after the close of the first and third quarters of each fiscal year); rule 30b2-1 (requiring management companies to file reports on Form N-CSR no later than 10 days after the transmission to stockholders of any report required to be transmitted to stockholders under rule 30e-1). *See also* rules 30e-1 and 30e-2 under the Investment Company Act [17 CFR 270.30e-1 and 17 CFR 270.30e-2] (requiring management companies and certain UITs to transmit to stockholders semi-annual reports containing, among other things, the fund's portfolio schedules, no more than 60 days after the close of the second and fourth quarters of each fiscal year). These reports include portfolio holdings information as required by Regulation S-X. *See* rule 12-12 of Regulation S-X [17 CFR 210.12-12], *et seq.*

ability to search or analyze a single portfolio. Based on staff experience with data analysis of funds, including staff experience using Form N-MFP, we believe that more frequent and timely information concerning fund portfolios than we currently receive through registration statements, shareholder reports on Form N-CSR, and reports on Form N-Q will assist the Commission in its role as the primary regulator of funds, as discussed further below.

The information we are proposing to collect on Form N-PORT would be important to the Commission in analyzing and understanding the various risks in a particular fund, as well as risks across specific types of funds and the fund industry as a whole. These risks can include the investment risk that the fund is undertaking as part of its investment strategy, such as interest rate risk, credit risk, volatility risk, other market risks, or risks associated with specific types of investments, such as emerging market debt or commodities. Additionally, the information is helpful to understanding liquidity risks and counterparty risks, and determining whether a fund's exposure to price movements is leveraged, either through borrowings or the use of derivatives. We believe that information we are proposing to require on Form N-PORT will assist the Commission in better understanding each of these risks in the fund industry. We believe that the ability to understand the risks that funds face will help our staff better understand and monitor risks and trends in the fund industry as a whole, facilitating our informed regulation of the fund industry.

We also believe that information obtained from Form N-PORT filings would facilitate our oversight of funds and assist Commission staff in examination, enforcement, and monitoring, as well as in formulating policy and in its review of fund registration

statements and disclosures. In this regard, we expect that Commission staff would use the data reported on Form N-PORT for many of the same purposes as Commission staff has used data reported on Form N-MFP by money market funds. The data received on Form N-MFP has been used extensively by Commission staff, including for purposes of assessing regulatory compliance, identifying funds for examination, and risk monitoring. Form N-MFP data has also informed Commission policy; for example, staff used Form N-MFP data in analyses that informed the Commission's considerations when it proposed and adopted money market fund reform rules in 2013 and 2014.[28]

We recognize that, unlike money market funds, which as cash management vehicles generally share common investment objectives and strategies and thus invest in a relatively small number of common security types, other funds invest in a much more diverse manner. Accordingly, Form N-PORT, as proposed, would require reporting of additional information relative to Form N-MFP, in order to facilitate understanding and analysis of the investment strategies that funds pursue, as well as the large variety of securities, commodities, currencies, derivatives, and other investments that funds may invest in.

In addition to assisting the Commission in its regulatory functions, we believe that investors and other potential users could benefit from the periodic public disclosure of the information reported on Form N-PORT. Proposed Form N-PORT is primarily designed

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[28] *See, e.g.*, Money Market Fund Reform; Amendments to Form PF, Investment Company Act Release No. 30551 (June 5, 2013) [78 FR 36834 (June 19, 2013)]; Money Market Fund Reform 2014 Release, *supra* note 13 at n.502 and accompanying text (citing use of Form N-MFP data in discussing the Commission's decision to require basis point rounding); and at n.651 and accompanying text (citing use of Form N-MFP data in discussing the Commission's decision regarding the size of the non-government securities basket for government money market funds).

for use by the Commission and its staff, and not for disclosing information directly to individual investors. This is because the form's structured format, while needed for quantitative analysis within a fund and across funds, is not an easily human-readable format. Additionally, the information we are proposing to require on Form N-PORT is more voluminous than on a schedule of investments. We believe, however, that some investors, particularly institutional investors, could directly use the data from the information on proposed Form N-PORT for their own quantitative analysis of funds, including to better understand the funds' investment strategies and risks, and to better compare funds with similar strategies. Additionally, we believe that entities providing services to investors, such as investment advisers, broker-dealers, and entities that provide information and analysis for fund investors, could also utilize and analyze the information that would be required by proposed Form N-PORT to help all investors make more informed investment decisions. Accordingly, whether directly or through third parties, we believe that the periodic public disclosure of the information on proposed Form N-PORT could benefit all fund investors. As discussed further below, in order to mitigate the risk that the information on Form N-PORT could be used in ways that might ultimately result in investor harm, we are proposing to limit the public availability of Form N-PORT reports to those reports filed as of quarter end, as well as delay public availability of those reports by 60 days after quarter end.

We intend to increase transparency of fund investments through proposed Form N-PORT in several ways. First, N-PORT would improve reporting of fund derivative usage. As the Commission has previously noted, we have observed significant increases in the use of derivatives by funds, which have highlighted the need for more robust and

standardized derivatives disclosures.[29] Additionally, funds that are considered "alternative" funds, which often use derivatives for implementing their investment strategy, are becoming increasingly popular among investors.[30] Although Regulation S-X establishes general disclosure requirements for financial statements in fund registration statements, based on staff review of fund filings, the lack of standardized requirements as to the terms of derivatives that must be reported has sometimes led to inconsistent approaches to reporting derivatives information and, in some cases, insufficient information concerning the terms and underlying reference assets of derivatives to allow the Commission or investors to understand the investment. This hinders both an analysis of a particular fund's investments, as well as comparability among funds.[31] The information requested in Form N-PORT would create a more detailed, uniform, and structured reporting regime. This would allow the Commission and investors to better analyze and compare funds' derivatives investments and the

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[29] *See* Derivatives Concept Release, *supra* note 7, at n.7 and accompanying text.

[30] While there is no clear definition of "alternative" in the fund industry, an alternative fund is generally understood to be a fund whose primary investment strategy falls into one or more of the three following categories: (1) non-traditional asset classes (for example, currencies); (2) non-traditional strategies (such as long/short equity positions); and/or (3) less liquid assets (such as private debt).

At the end of December 2014, alternative mutual funds had almost $200 billion in assets. Although alternative mutual funds only accounted for 1.19% of the mutual fund market as of December 2014, the almost $20.1 billion of inflows into these funds in 2014 represented 4.3% of the inflows for the entire mutual fund industry in that year. These statistics were obtained from staff analysis of Morningstar Direct data, and are based on fund categories as defined by Morningstar.

[31] *See, e.g.*, rule 12-13 of Regulation S-X [17 CFR 210.12-13] (requiring funds to generally disclose derivatives together with "other" investments); rule 6-03 of Regulation S-X [17 CFR 210.6-03] (applying articles 1-4 of Regulation S-X to investment companies, but not specifying where derivative disclosures should be made for funds); ASC 815, Disclosures about Derivative Instruments and Hedging Activities (discussing general derivative disclosure) ("ASC 815"); ASC 820, Fair Value Measurements (requiring disclosure of valuation information for major categories of investments) ("ASC 820"). *See also* Part II.C.

exposures they create, which can be important to understanding funds' investment strategies, use of leverage, and potential for risk of loss.

Furthermore, as discussed further below, proposed Form N-PORT would require funds to report certain risk metrics that would provide measurements of a fund's exposure to changes in interest rates, credit spreads and asset prices, whether through investments in debt securities or in derivatives. Financial statement information provides historical information over a particular time period (*e.g.*, a statement of operations), or information about values of assets at a particular point in time (*e.g.*, a balance sheet including, for funds, a schedule of investments). Risk metrics, on the other hand, measure the change in value of an investment in response to small changes in the underlying reference asset of an investment, whether the underlying reference asset is a security (or index of securities), commodity, interest rate, or credit spread over an interest rate. Based on staff experience, as well as staff outreach to asset managers and entities that provide risk management services to asset managers, discussed further below, we believe that fund portfolio managers and risk managers commonly calculate these risk metrics to analyze the exposures in their portfolios.[32] The Commission believes that staff can use these risk measures to better understand the exposures in the fund industry, thereby facilitating better monitoring of risks and trends in the fund industry as a whole.

Form N-PORT would also require information about certain fund activities such as securities lending, repurchase agreements, and reverse repurchase agreements,

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[32] *See generally* John C. Hull, OPTIONS, FUTURES, AND OTHER DERIVATIVES, SEVENTH EDITION (2009) (discussing, for example, the function of duration, convexity, delta, and other calculations used for measuring changes in the value of bonds or derivatives as a result in changes in underlying asset prices or interest rates); Sheldon Natenberg, OPTION VOLATILITY AND PRICING (1994) (same).

including information regarding the counterparties to which the fund is exposed in those transactions, as well as in over-the-counter derivatives transactions. Such information would increase transparency concerning these activities and would provide better information regarding counterparty information, which would be useful in assessing both individual and multiple fund exposures to a single counterparty.[33]

Proposed Form N-PORT also requires information that would assist the Commission in assessing fund liquidity risk by, for example, requiring funds to provide information about the market liquidity and pricing of portfolio investments, as well as information regarding fund flows, which is helpful to understanding the liquidity pressures a fund might experience due to investor redemption activity.

Finally, as discussed further below, Form N-PORT would be filed electronically in a structured, XML format. This format would enhance the ability of the Commission, as well as investors and other potential users, to analyze portfolio data both on a fund-by-fund basis and also across funds. As a result, although we are proposing to collect certain information on Form N-PORT that may be similarly disclosed or reported elsewhere (*e.g.*, portfolio investments would continue to be included as part of the schedules of investments contained in shareholder reports, and filed on a semi-annual basis with the Commission on Form N-CSR), we believe that it is appropriate to also collect this

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[33] *See, e.g.*, Report by Task Force on Tri-Party Repo Infrastructure, May 17, 2010 (concluding that insufficient transparency of the tri-party repurchase agreement market contributed to the build-up of exposures and the lack of prior concerted action to address the issues that led to financial turmoil during 2007-2009). The Task Force on Tri-Party Repo Infrastructure was formed in September 2009 under the purview of the Payments Risk Committee, a private sector body sponsored by the Federal Reserve Bank of New York. The Task Force membership includes representatives from multiple types of market participants that participate in the tri-party repo market, as well as relevant industry associations. Federal Reserve and Commission staff participated in meetings of the Task Force as observers and technical advisors.

information in a structured format for analysis by our staff as well as investors and other potential users.

1. Who Must File Reports on Form N-PORT

Our proposal would require a report on Form N-PORT to be filed by each registered management investment company and each ETF organized as a UIT.[34] Registrants offering multiple series would be required to file a report for each series separately, even if some information is the same for two or more series. Money market funds and SBICs would not be required to file reports on Form N-PORT.[35]

As indicated above, our proposal would require all ETFs to file reports on Form N-PORT, regardless of their form of organization. Although most ETFs today are structured as open-end management investment companies, there are several ETFs that are organized as UITs.[36] ETFs organized as UITs have significant numbers of investors who we believe could benefit from the disclosures required in Form N-PORT.[37]

We request comment on the entities that would be required to file reports on Form N-PORT.

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34 *See* proposed rule 30b1-9.

35 Money market funds already file their monthly portfolio investments with the Commission. *See* Form N-MFP. SBICs are unique investment companies that operate differently than other management investment companies. They are "privately owned and managed investment funds, licensed and regulated by [the Small Business Administration ("SBA")], that use their own capital plus funds borrowed with an SBA guarantee to make equity and debt investments in qualifying small businesses." *See* SBIC Program Overview *available at* https://www.sba.gov/content/sbic-program-overview. As of December 31, 2014, only one SBIC had publicly offered securities outstanding.

36 There are currently eight ETFs organized as UITs that have registered with the Commission.

37 Commission staff estimates that as of December 2014, ETFs organized as UITs represented 14% of all assets invested in ETFs. This analysis is based on data from Morningstar Direct.

- Should any funds that we are proposing to require to file reports on Form N-PORT not be required to do so? If so, what types of funds?
- Should we require SBICs to file reports on Form N-PORT? How useful would the information reported on Form N-PORT be for investors?
- Our proposal would allow investors in different types of ETFs to compare their portfolio investments by means of identical disclosures on reports on Form N-PORT, regardless of whether an ETF was organized as an open-end management investment company or as a UIT. Should ETFs organized as UITs not be required to file reports on Form N-PORT? If so, why?

2. Information Required on Form N-PORT

Form N-PORT would require a fund to report certain information about the fund and the fund's portfolio investments as of the close of the preceding month, including: (a) general information about the fund; (b) assets and liabilities; (c) certain portfolio-level metrics, including certain risk metrics; (d) information regarding securities lending counterparties; (e) information regarding monthly returns; (f) flow information; (g) certain information regarding each investment in the portfolio; (h) miscellaneous securities (if any); (i) explanatory notes (if any), and (j) exhibits. Each of these is discussed in more detail below.

a. General Information and Instructions

Part A of Form N-PORT would require general identifying information about the fund, including the name of the registrant, name of the series, and relevant file numbers.[38]

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[38] *See* Form N-PORT, Items A.1 and A.2. Funds would provide the name of the registrant, the Investment Company Act and CIK file numbers for the registrant, and the address and

Funds would also report the date of their fiscal year end, the date as of which information is reported on the form, and indicate if they anticipated that this would be their final filing on Form N-PORT.[39] This information would be used to identify the registrant and series filing the report, track the reporting period, and identify final filings.

Additionally, we are proposing that funds provide the Legal Entity Identifier ("LEI") number of the registrant and series.[40] The LEI is a unique identifier associated with a single corporate entity and is intended to provide a uniform international standard for identifying counterparties to a transaction.[41] Fees are not imposed for the usage of or access to LEIs, and all of the associated reference data needed to understand, process, and utilize the LEIs are widely and freely available and not subject to any usage restrictions. Funds or registrants that have not yet obtained an LEI would be required to obtain one, which would entail a modest fee.[42] The inclusion of LEI information on Form N-PORT, however, would facilitate the ability of investors and the Commission to link the data

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telephone number of the registrant. Funds would also provide the name of and EDGAR identifier for the series.

39 *See* Form N-PORT, Items A.3 and A.4.

40 *See* Form N-PORT, Items A.1.d and A.2.c. The Commission has begun to require disclosure of the LEI in other contexts. *See, e.g.,* Form PF Adopting Release, *supra* note 14; Regulation SBSR-Reporting and Dissemination of Security-Based Swap Information, Securities Exchange Act Release No. 74244 (Feb. 11, 2015) [80 FR 14438 (Mar. 19, 2015)] ("Regulation SBSR Adopting Release").

41 The global LEI system operates under an LEI Regulatory Oversight Committee ("ROC") that currently includes members that are official bodies from over 40 jurisdictions. The Commission is a member of the ROC and currently serves on its Executive Committee. The Commission notes that it would expect to revisit the proposed requirement to report LEIs if the operation of the LEI system were to change significantly.

42 As of December 26, 2014, the cost of obtaining an LEI from the Global Markets Entity Identifier ("GMEI") Utility in the United States was $200, plus a $20 surcharge for the LEI Central Operating Unit. The annual cost of maintaining an LEI from the GMEI Utility was $100, plus a $20 surcharge for the LEI Central Operating Unit. *See* https://www.gmeiutility.org/frequentlyAskedQuestions.jsp.

reported on Form N-PORT with data from other filings or sources that is or will be reported elsewhere as LEIs become more widely used by regulators and the financial industry.[43]

Form N-PORT would also include general filing and reporting instructions, as well as definitions of specific terms referenced in the form.[44] These instructions and definitions are intended to provide clarity to funds and to assist them in filing reports on Form N-PORT.[45]

We seek comment on these proposed disclosures and instructions.

- Is there any additional or alternative information that should be required to facilitate identification of funds and analysis of the reported information with information from other filings or otherwise available elsewhere?

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[43] *See, e.g.*, Press Release: Commodities Futures Trading Commission ("CFTC") Announces Mutual Acceptance of Approved Legal Entity Identifiers, CFTC (Oct. 30, 2013), *available at* http://www.cftc.gov/PressRoom/PressReleases/pr6758-13; Letter from Kenneth Bentsen, President & CEO of SIFMA to Jacob Lew, Chairman of FSOC re: Adoption of the Legal Entity Identifier, SIFMA (Apr. 11, 2014), *available at* http://www.sifma.org/issues/item.aspx?id=8589948488; Regulation SBSR Adopting Release, *supra* note 40.

Commenters to the FSOC Notice expressed support for regulatory acceptance of LEI identifiers. *See, e.g.*, Joint Comment Letter of SIFMA/Investment Adviser Association (Mar. 25, 2015) ("SIFMA/IAA FSOC Notice Comment Letter") (expressing support for the LEI initiative, and noting that the use of LEIs has already enhanced the industry's ability to identify and monitor global market participants); Comment Letter of Fidelity to FSOC Notice (Mar. 25, 2015) (expressing the need to develop analytics to make data intelligible, such as the ability to map exposures across the financial system, such as through the use of LEIs).

[44] *See* Form N-PORT, General Instructions A (Rule as to Use of Form N-PORT), B (Application of General Rules and Regulations), C (Filing of Reports), D (Paperwork Reduction Act Information), E (Definitions), F (Public Availability), G (Responses to Questions), and H (Signature and Filing of Report).

[45] *See id.* For example, General Instructions A, B, C, G, and H provide specific filing and reporting instructions (including how to report entity names, percentages, monetary values, numerical values, and dates), General Instructions D and F provide information about the Paperwork Reduction Act and the public availability of information reported on Form N-PORT, and General Instruction E provides definitions for specific terms referenced in Form N-PORT.

- Should the Commission require funds to obtain LEIs? Is it appropriate for the Commission to require LEIs, which are only available through the global LEI system? Why or why not? In the case of funds that have not obtained an LEI, will those funds seek to obtain an LEI in the future absent any regulatory requirement to do so? In addition to the fees for obtaining and maintaining an LEI, would there be other costs associated with funds obtaining LEIs?[46]
- Are there any instructions or definitions that should be revised? If so, how? Should any instructions or definitions be added to provide additional clarity, or deleted to avoid confusion with conflicting instructions, definitions, or industry practices?

b. Information Regarding Assets and Liabilities.

Part B of proposed Form N-PORT would seek certain portfolio level information about the fund. Part B would include questions requiring funds to report their total assets, total liabilities, and net assets.[47] Funds would separately report certain assets and liabilities, as follows. First, funds would report the aggregate value of any "miscellaneous securities" held in their portfolios.[48] Currently, Regulation S-X permits

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46 *See supra* note 42 (discussing the costs of obtaining and maintaining an LEI identifier in the United States). The Commission has further estimated the one-time burden associated with obtaining an LEI is one hour, with ongoing administration of an LEI corresponding to one hour per year. *See* SBSR Adopting Release, *supra* note 40, at nn. 1109-1111 and accompanying text.

47 *See* Form N-PORT, Item B.1.

48 *See* Form N-PORT, Items B.1.a and B.2.a. As discussed further below, we are proposing that funds would also report information about miscellaneous securities on an investment-by-investment basis, although such information would be nonpublic and would be used for Commission use only. We also request comment below on whether funds should continue to be permitted to categorize investments as "miscellaneous securities." *See infra* note 151 and accompanying text.

funds to report an aggregate amount not exceeding five percent of the total value of the portfolio investments in one amount as "Miscellaneous securities," provided that securities so listed are not restricted, have been held for not more than one year prior to the date of the related balance sheet, and have not previously been reported by name to the shareholders, or set forth in any registration statement, application, or annual report or otherwise made available to the public, and, as discussed further below, we are proposing the same conditions for Form N-PORT.[49]

Funds would also report any assets invested in a controlled foreign corporation for the purpose of investing in certain types of investments ("controlled foreign corporation" or "CFC").[50] Some funds use CFCs for making certain types of investments, particularly commodities and commodity-linked derivatives, often for tax purposes. Our proposal would require funds to disclose each underlying investment in a CFC, rather than just the investment in the CFC itself, which would increase transparency on fund investments through CFCs.[51] These disclosures would allow investors to look through CFCs and understand the specific underlying holdings that they are investing in, which would in turn allow investors to better analyze their fund holdings and risk associated with CFC investments, and hence enable investors to make more informed investment decisions. In addition, as discussed further below in Part II.E.4, we believe it would be beneficial for the Commission to have certain information about funds' use of CFCs. The information

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[49] *See* rule 12-12 of Regulation S-X.

[50] *See* Form N-PORT, Instruction E (providing that "controlled foreign corporation" has the meaning defined in section 957 of the Internal Revenue Code [26 U.S.C. 957]) and Item B.2.b (requiring funds to report assets invested in controlled foreign corporations).

[51] *See* Form N-PORT, Part B Instruction ("Report the following information for the Fund and its consolidated subsidiaries.").

we are proposing to obtain in Form N-PORT, combined with additional information we are proposing to require on Form N-CEN regarding CFCs, discussed below, would help the Commission better monitor funds' compliance with the Investment Company Act and assess funds' use of CFCs, including the extent of their use by reporting of total assets in CFCs.[52]

Second, we are proposing to require that funds report the amount of certain liabilities, in particular: (1) borrowings attributable to amounts payable for notes payable, bonds, and similar debt, as reported pursuant to rule 6-04(13)(a) of Regulation S-X [17 CFR 210.6-04(13)(a)]; (2) payables for investments purchased either (i) on a delayed delivery, when-delivered, or other firm commitment basis, or (ii) on a standby commitment basis; and (3) liquidation preference of outstanding preferred stock issued by the fund.[53] This information would allow Commission staff, as well as investors and other potential users, to better understand a fund's borrowing activities and payment obligations for assets that have been already received, which would facilitate analysis of the fund's use of financial leverage, as well as the fund's liquidity and ability to meet redemptions, which are important to understanding the risks such borrowings might create.

We request comment on the reporting of assets and liabilities proposed on Form N-PORT.

- As discussed above, our proposal would require funds to disclose each underlying investment in a CFC. Should we consider modifying the information we propose

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[52] *See infra* note 467 and accompanying and following text.

[53] *See* Form N-PORT, Items B.2.c to B.2.e.

to require, or require additional information? How commonly do funds invest in CFCs that in turn invest their assets in underlying investments? Should we provide instructions to clarify how funds should report investments in this situation? If so, should the Commission permit funds to disclose only the ultimate underlying investments, or should the Commission require disclosure of each layer of investment?

- Are there other methods of reporting the assets (including assets in CFCs) and liabilities described above that we should consider?
- Are there other assets and liabilities that funds should be required to separately report? If so, why? For example, should the Commission require funds to separately break out categories of assets and liabilities similar to what is currently required by Form N-SAR?[54] What would be the costs associated with providing such information on a monthly basis?

c. Portfolio Level Risk Metrics

One of the purposes of Form N-PORT is to provide the Commission with information regarding fund portfolios to help us better monitor trends in the fund industry, including investment strategies funds are pursuing, the investment risks that funds undertake, and how different funds might be affected by changes in market conditions. As discussed above, the Commission uses information from fund filings, including a

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[54] *See* Form N-SAR, Item 74 (requiring funds to report consolidated balance sheet data, including cash, repurchase agreements, debt-securities, preferred stock, common stock, options, other investments, receivables, other assets, total assets, payables for portfolio instruments purchased, amounts owed to affiliated persons, senior long-term debt, other liabilities, senior equity, net assets of common shareholders, number of shares outstanding, net asset value per share, total number of shareholder accounts, and total value of assets in segregated accounts).

fund's registration statement and reports on Form N-CSR (which includes the fund's shareholder report) and Form N-Q, to inform its understanding and regulation of the fund industry. Additionally our staff reviews fund disclosures—including registration statements, shareholder reports, and other documents—both on an ongoing basis as well as retroactively every three years.[55]

The disclosures in a fund's registration statement about its investment objective, investment strategies, and risks of investing in the fund, as well as the fund's financial statements, are fundamental to understanding a fund's implementation of its investment strategies and the risks in the fund. However, the financial statements and narrative disclosures in fund registration statements and shareholder reports do not always provide a complete picture of a fund's exposure to changes in asset prices, particularly as fund strategies and fund investments become more complex. The financial statements, including a fund's schedule of portfolio investments, provide data regarding investments' values as of the end of the reporting period – a "snapshot" of data at a particular point in time – or, in the case of the statement of operations, for example, historical data over a specified time period. By contrast, based on staff experience and outreach to funds, we understand that funds commonly internally use multiple risk metrics that provide calculations that measure the change in the value of fund investments assuming a specified change in the value of underlying assets or, in the case of debt instruments and derivatives that provide exposure to interest rates and debt instruments, changes in interest rates or in credit spreads above the risk-free rate.

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[55] *See, e.g.*, section 408 of the Sarbanes-Oxley Act of 2002, Pub. L. 107-204, 116 Stat. 745 (2002) (requiring the Commission to engage in enhanced review of periodic disclosures by certain issuers every three years).

Accordingly, we believe it is appropriate to propose requiring funds to report quantitative measurements of certain risk metrics that would provide information beyond the narrative, often qualitative disclosures about investment strategies and risks in the fund's registration statement, as well as a fund's historical financial statement disclosures. Monthly reporting on these risk measures, in particular, would help provide the Commission with more current information on how funds are implementing their investment strategies through particular exposures. Receiving this information on a monthly basis could help the Commission, for example, more efficiently analyze the potential effects of a market event on funds.

Specifically, we are proposing to require certain funds to provide portfolio level measures on Form N-PORT that will help Commission staff better understand and monitor funds' exposures to changes in interest rates and credit spreads across the yield curve. As discussed in Part II.A.2.g below, we are also proposing to require risk measures at the investment level for options and convertible bonds. We believe that the staff can use these measures, for example, to determine whether additional guidance or policy measures are appropriate to improve disclosures in order to help investors better understand how changes in interest rate or credit spreads might affect their investment in a fund.

Additionally, as we discussed above, we believe that institutional investors, as well as entities that provide services to both institutional and individual investors, would be able to use these risk metrics to conduct their own analyses in order to help them better understand fund composition, investment strategy, and interest rate and credit spread risk the fund is undertaking. This would complement the risk disclosures that are

contained in the registration statement, thereby potentially helping all investors to make more informed investment choices. We believe that our proposal to require these funds to publicly disclose these measures quarterly, like other information in the schedule of investments, will also help provide investors with more specific, quantitative information regarding the nature of a fund's exposure to particular asset classes than they do currently. Providing this more specific and current information through periodic public disclosure of such risk metrics could be especially important for investors with respect to funds that continuously offer new shares to the public, because such funds are generally required to maintain an updated or "evergreen" prospectus that must precede or accompany delivery of those securities.[56]

In particular, for funds that invest in debt instruments, or in derivatives that provide exposure to debt or debt instruments, we believe it is important for the Commission staff, investors, and other potential users to have measures that would help them analyze how portfolio values might change in response to changes in interest rates or credit spreads.[57] To improve the ability of the Commission staff, investors, and other potential users to analyze how changes in interest rates and credit spreads might affect a fund's portfolio value, we are proposing that a fund that invests in debt instruments, or derivatives that provide exposure to debt instruments or interest rates, representing at

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[56] *See* section 5(b)(2) of the Securities Act.

[57] As discussed further below, the Commission also believes that there would be a benefit to collecting risk measures for derivatives that provide exposure to certain assets, such as equities and commodities. Due to the nature of these instruments, however, we believe that such information should be provided on an instrument-by-instrument basis, instead of as a portfolio level calculation.

least 20% of the fund's notional exposure, provide a portfolio level calculation of duration and spread duration across the applicable maturities in the fund's portfolio.

We are proposing to limit this requirement to funds that invest in debt instruments or derivatives that provide exposure to debt instruments or interest rates that represent at least 20% of the fund's notional value as of the reporting date.[58] We are proposing the 20% threshold because we believe that at this level, the Commission would still receive measurements of duration and spread duration from funds that make investments in debt instruments as a significant part of their investment strategy, while providing an appropriate threshold so that funds that do not invest in debt to achieve their investment strategy would not have to monitor each month whether they trigger the requirement for making such calculations. Funds that primarily invest in assets other than debt instruments, such as equities, might have some level of investments in debt instruments for cash management or other purposes. We do not believe that requiring such funds to provide monthly calculations of duration or spread duration would be helpful for understanding such funds' investment strategy or risk exposures, and we believe that the 20% threshold will provide a *de minimis* level to relieve the burden of calculating these measures for such funds. We believe that information would be most useful from funds

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[58] Specifically, we are proposing to calculate notional value as the sum of the absolute values of: (i) the value of each debt security, (ii) the notional amount of each swap, including, but not limited to, total return swaps, interest rate swaps credit default swaps, for which the underlying reference asset or assets are debt securities or an interest rate; and (iii) the delta-adjusted notional amount of any option for which the underlying reference asset is an asset described in clause (i) or (ii). *See* Form N-PORT, Item B.3, Instruction.

The delta-adjusted notional value of options is needed to have an accurate measurement of the exposure that the option creates to the underlying reference asset. *See, e.g.*, Comment Letter of Morningstar (Nov. 7, 2011) ("Morningstar Derivatives Concept Release Comment Letter") (submitted in response to the Derivatives Concept Release, *supra* note 7, which sought comment regarding the use of derivatives by management investment companies).

that actually use debt exposures as part of their investment strategy. Based on staff experience, we believe that such funds have a debt exposure of at least 20%, and commonly greater than that. As discussed below, we request comment on the proposed *de minimis* threshold.

For duration, we are proposing to require that a fund calculate the change in value in the fund's portfolio from a 1 basis point change in interest rates (commonly known as DV01) for each applicable key rate along the risk-free interest rate curve, *i.e.*, 1 month, 3 month, 6 month, 1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 20 year, and 30 year interest rate, for each applicable currency in the fund. We realize that funds might not have exposures for every applicable key rate. For example, a short-term bond fund is unlikely to have debt exposures with longer maturities. Accordingly, a fund would only report the key rates that are applicable to the fund. Funds would report zero for maturities to which they have no exposure.[59] For exposures outside of the range of listed maturities listed on Form N-PORT (*i.e.*, maturities shorter than one month or longer than 30 years), funds would be instructed to include those exposures in the nearest maturity.

We believe that requiring funds to provide further detail about their exposures to interest rate changes along the risk-free rate curve would provide the Commission with a better understanding of the risk profiles of funds with different strategies for achieving debt exposures. For example, funds targeting an effective duration of five years could achieve that objective in different ways – one fund could invest predominantly in intermediate-term debt; another fund could create a long position in longer-term bonds,

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[59] For funds with exposures that fall between any of the listed maturities in the form, funds would be instructed to use linear interpolation to approximate exposure to each maturity listed above.

matched with a short position in shorter-term bonds. While both funds would have an intermediate-term duration, the risk profiles of these two funds, that is, their exposures to changes in long-term and short-term interest rates, are different. Having the proposed DV01 calculations along the risk-free interest rate curve would clarify this difference. The Commission staff could use this information to better understand how funds are achieving their exposures to interest rates, and use this information to perform analysis across funds with similar strategies to identify outliers for potential further inquiry, as appropriate.

Additionally, we are proposing to require that the same funds provide a measure of spread duration (commonly known as SDV01) at the portfolio level for each of the same maturities listed above, aggregated by non-investment grade and investment grade exposures.[60] This would measure the fund's sensitivity to changes in credit spreads, *i.e.*, a measure of spread above the risk-free interest rate. This is helpful for analyzing shifts in credit spreads for non-investment grade and investment grade debt, respectively, over the yield curve, as credit spreads for investment grade and non-investment grade debt do not always shift in parallel or in lock step, particularly during times of market stress.[61] Because credit spreads can also vary based on the maturity of the bonds, we believe that

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60 Form N-PORT would include instructions stating that "Investment Grade" refers to an investment that is sufficiently liquid that it can be sold at or near its carrying value within a reasonably short period of time and is subject to no greater than moderate credit risk, and "Non-Investment Grade" refers to an investment that is not Investment Grade. *See* Form N-PORT, General Instruction E. These instructions are consistent with the definitions of "Investment Grade" and "Non-Investment Grade" used in Form PF.

61 *See, e.g.*, Frank K. Reilly, David J. Wright, and James A. Gentry, *Historic Changes in the High Yield Bond Market*, Journal of Applied Corporate Finance, Volume 21, No. 3, 65-79 (Summer 2009) (discussing the historical performance, including the credit spreads of the high yield bond market compared to the investment grade bond market).

providing credit spread measures for the key rates along the yield curve, as with DV01, would help the Commission better analyze credit spreads of investments in funds.[62] Again, similar to the example above regarding the potential use of the DV01 metric, SDV01 can provide more precise information regarding funds' exposures to credit spreads when they engage in a strategy investing in investment-grade or non-investment grade debt.

In determining the methodology for the proposed measures of duration and spread duration, staff engaged in outreach to asset managers and risk service providers that provide risk management and other services to asset managers and institutional investors. The methodology proposed is both based on staff experience in using duration and spread duration, as well as this outreach to better understand common fund practices for calculating such measures. The Commission recognizes that particular funds might currently vary their methodology for calculating duration and spread duration by, for example, only providing a single measure of duration or spread duration or by only reporting key rate durations for particular maturities. Based on staff experience and outreach, the Commission believes that the proposed methodologies for reporting duration and spread duration will allow for better comparability across funds.

Also, based on outreach, Commission staff believes that service providers that provide risk management services to funds generally use a "bottom up" approach to calculating duration and spread duration, meaning that such measures are first calculated

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[62] The delineation between non-investment grade and investment grade debt is similar to information regarding private fund exposures gathered on Form PF, which could be helpful for comparing and analyzing credit spreads between public and private funds. *See, e.g.*, Item 26 of Form PF.

at the position level and then aggregated at the portfolio level. Accordingly, we believe that providing the specific methodology for aggregation of duration and spread duration would not significantly increase the burden of calculating such metrics by funds, even if funds analyze such measures at the portfolio level using a methodology different from what we are proposing. As discussed below, however, we request comment on the proposed methodologies, including whether such methodologies should be modified.

For both duration and spread duration, we are proposing to require that funds provide the change in value in the fund's portfolio from a 1 basis point change in interest rates or credit spreads, rather than a larger change, such as 5 basis points or 25 basis points. Based on staff's outreach, we believe that a 1 basis point change is the methodology that many funds currently use to calculate these risk measures at the position level for internal risk monitoring and would provide sufficient information to assist the Commission in analyzing fund exposures to changes in interest rate or credit spreads. We believe that requiring funds to calculate such measures based on a larger basis point change could require more customized calculations, and therefore increase costs to funds, relative to the approach proposed. We request comment on this aspect of the proposed methodology.

While the Commission is proposing that funds provide a calculation of each of these measures at a portfolio level, the Commission has considered whether to propose, instead, that funds report these risk metrics for each debt instrument or derivative that has an interest rate or credit exposure. This would provide more precise data for analysis of various movements in interest rates and credit spreads. Additionally, as discussed above, the Commission believes that most funds currently calculate these risk metrics at a

position level; however, we recognize that even if such calculations are available at a position level, reporting these metrics could cause funds to make additional systems changes to collect such position-level data for reporting, as well as potential burdens related to increased review time and quality control in submitting the reports. Based on staff's outreach and staff's experience, the Commission believes that requiring funds to provide this information for each maturity at the portfolio level would provide a sufficient level of granularity for purposes of Commission staff analysis. Finally, we believe that there would be certain efficiencies for the Commission, investors, and other potential users to having funds report the portfolio-level calculations relative to reporting position-level calculations, as this could allow for more timely and efficient analysis of the data by not requiring the Commission or other potential users to calculate the portfolio-level measures from the position-level measures. We request comment below on the relative burdens and benefits of providing portfolio level and position level data.

The Commission also considered whether to require funds to report a portfolio level measure (or, for the same reasons discussed immediately above in connection with how risk measures are calculated, position level measures) for convexity, which facilitates more precise measurement of the change in a bond price with larger changes in interest rates.[63] We have preliminarily determined not to require reporting of this metric, however, because we believe, based on staff outreach, that funds more commonly analyze non-linear changes to interest rates through stress testing, rather than through calculating convexity. We request comment, however, on whether requiring funds to

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[63] More specifically, convexity measures the non-linearities in a bond's price with respect to changes in interest rates. *See* Frank J. Fabozzi, THE HANDBOOK OF FIXED INCOME SECURITIES 149-152 (8th ed. 2012).

report a portfolio-level measure of convexity would be useful to the Commission, investors, and other potential users, and the relative burdens and benefits of reporting convexity.

We request comment on the proposed requirements to provide risk measures at the portfolio level.

- We are proposing a 20% threshold because, based on staff experience, we believe that this would require funds that use debt and exposure to debt or interest rate changes as part of their investment strategy to provide those metrics, while providing a minimum threshold so that funds that invest in debt for cash management or other purposes unrelated to implementing their investment strategy would not be required to collect, calculate, or report such data. Given this objective, is 20% the appropriate threshold for determining which funds must provide these risk metrics? Should this threshold be lower, such as 5% or 10% or higher, such as 30% or 35%? Are there alternative methodologies that the Commission should consider for determining which funds should be required to provide this information? Should we, instead, base the threshold directly on the net asset value ("NAV") of the fund's debt securities and interest rate investments, rather than the fund's notional exposure to debt securities or interest rates as a percentage of the fund's NAV?
- We are proposing to require reporting information on DV01 and SDV01 at the portfolio level because we believe that this can provide the Commission and investors with useful information regarding funds' exposures to changes in interest rate and credit spreads, without imposing a potential burden that might be

involved in providing such risk metrics at a position level. We believe, however, based on staff outreach that funds or their service providers generally do calculate such information at a position level. We request comment on the relative burdens and benefits of requiring funds to report portfolio level calculations of duration and spread duration, as opposed to providing those for each relevant instrument in the portfolio. What, if any, would be the added costs and burdens associated with adapting systems in order to centrally collect and report such information? What would be the benefits to the Commission, investors, and other potential users to having more precise information in order to evaluate such exposures? Conversely, are there benefits to having funds report these measures at the portfolio level rather than the position level, even if reporting at the position level would not significantly increase costs?

- To what extent would the values reported for these risk metrics be affected by the inputs and assumptions underlying the methodologies by which funds would calculate these metrics, including assumptions regarding the valuation of the investments or underlying securities of investments, particularly for investments that have pre-payment options, such as mortgage-backed securities? Specifically, how would the comparability of information reported by different funds be affected if funds used different inputs and assumptions in their methodologies? Do funds have concerns regarding reporting measures that include such assumptions, such as proprietary or liability concerns? Are there ways the Commission could improve the standardization of the calculation of these risk metrics? If so, how?

- To the extent that funds are calculating such measures using a methodology other than what the Commission is proposing, what would the associated costs and other burdens be for funds to calculate and report these measures according to a different methodology than that typically used by the fund?
- Are there any alternatives or modifications to the methodologies that the Commission is proposing that the Commission should consider?[64] For example, should the Commission require, or permit, funds to report duration and spread duration only for the maturities that represent the highest exposures in the fund, such as the top three or the top five (or another quantity)? Should the Commission require, or permit, funds to report duration and spread duration based on a larger change in interest rates or credit spreads, such as 5 basis points or 25 basis points? How would these methodologies affect the burden on funds of reporting duration and credit spread duration? Are there more efficient ways for the Commission to collect information to increase the transparency of funds' duration and spread duration?
- Should we provide a *de minimis* amount for exposure to different currencies, under which level a fund would not have to report the DV01 or SDV01 for exposures in that currency? For example, should we only require funds with exposure to a currency equal to 5% or more of the fund's NAV to provide a DV01

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[64] As discussed further below, we separately propose and request comment on additional and alternative risk metrics. *See, e.g., infra* note 127 and accompanying and following text (proposing that funds report delta for certain derivative contracts), text following note 142 (requesting comment on vega, gamma, and other risk metrics), and Part II.A.4.k (generally requesting comment on additional risk measures).

and SDV01 calculation for such currency? If we were to provide a *de miminis*, should the threshold be higher or lower?

d. Securities Lending

To increase the rate of return on their portfolios, some funds engage in securities lending activities whereby a fund lends certain of its portfolio securities to other financial institutions such as broker-dealers. In return for the security lent, funds receive collateral and sometimes a fee. To protect the fund from the risk of borrower default, the borrower generally posts collateral with the fund in an amount at least equal to the value of the borrowed securities, and this amount of collateral is adjusted daily as the value of the borrowed securities is marked to market.[65] Funds generally receive cash as collateral. A fund will typically invest cash collateral that it receives in short-term, highly liquid instruments, such as money market funds or similar pooled investment vehicles, or directly in money market instruments.[66]

The fund's income from these activities may come from fees paid by the borrowers to the fund and/or from the reinvestment of collateral. Many funds engage an external service provider—commonly called a "securities lending agent"—to administer the securities lending program. The securities lending agent is typically compensated by

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[65] *See* Securities Industry and Financial Markets Association, Master Securities Loan Agreement (2000 Version) §§4, 9, *available at* http://www.sifma.org/services/standard-forms-and-documentation/. *See also* Division of Investment Management, Securities and Exchange Commission, *Securities Lending by U.S. Open-End and Closed-End Investment Companies* ("Securities Lending Summary"), *available at* http://www.sec.gov/divisions/investment/securities-lending-open-closed-end-investment-companies.htm.

[66] Lending funds and borrowers may negotiate the collateral that the borrower posts to the lender, and a cash collateral fee, commonly called a "rebate," that the lender pays to the borrower. The rebate is negotiated and can be negative (*i.e.*, a fee paid from the borrower to the lender) when demand for the loan of a particular security is especially great or its supply especially constrained. *See id.* at §5.

being paid a share of the fund's securities lending revenue after the counterparty has been paid any rebate due to it.[67]

Securities lending implicates certain provisions of the Investment Company Act, and funds that engage in securities lending do so in reliance on Commission staff no-action letters, and in some circumstances, exemptive orders.[68] These letters and orders address a number of areas, including loan collateralization and termination, fees and compensation, board approval and oversight, and voting of proxies.

Currently, the information that funds are required to report about securities lending activity, whether in a structured format or otherwise, is limited. For example, funds disclose on Form N-SAR whether they are permitted under their investment policies to, and whether they did engage during the reporting period in, securities lending activities.[69] Funds generally also disclose additional information regarding their securities lending programs in their registration statements.[70] In addition, consistent with current industry practices, many funds voluntarily identify particular securities that are on loan in their schedules of portfolio investments prepared pursuant to Regulation S-X. These requirements do not address other pertinent considerations, such as the extent to which a fund lends its portfolio securities, the counterparties to which the fund is

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67 *See* Securities Lending Summary, *supra* note 65.

68 For example, the transfer of a fund's portfolio securities to a borrower implicates section 17(f) of the Investment Company Act, which generally requires that a fund's portfolio securities be held by an eligible custodian. A fund's obligation to return collateral at the termination of a loan implicates section 18 of the Investment Company Act, which governs the extent to which a fund may incur indebtedness. *See id.*

69 Item 70.N of Form N-SAR.

70 *See, e.g.*, Form N-1A, Items 9(c) (disclosures regarding risks), 16(b) (disclosures of investment strategies and risks), 17(f) (disclosures of proxy voting policy), and 28(h) (exhibits of other material contracts).

exposed, the fees and revenues associated with those activities, and the significance of securities lending revenue to the investment performance of the fund.

To address these data gaps and provide additional information to the Commission, investors, and other potential users regarding a fund's securities lending activities, we are proposing that funds report certain counterparty information and position-level information monthly on Form N-PORT.[71] Also, as to other information for which annual reporting would be sufficient because it is unlikely to change on a frequent basis (*e.g.*, name and other identifying information for a fund's securities lending agent), we are proposing that funds report this information annually on Form N-CEN as discussed below in Part II.E. We are also proposing, as discussed below in Part II.C.5, to require that certain information about the income from and fees paid in connection with securities lending activities, and the monthly average of the value of portfolio securities on loan, be disclosed as part of the notes to funds' financial statements.[72]

Our proposals today are intended, in part, to increase the transparency of information available related to the lending and borrowing of securities with respect to

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[71] *See infra* text following note 74 (discussing the reporting of counterparty information); Part II.A.2.g (discussing the proposed requirements regarding position-level information). Commenters to the FSOC Notice also suggested that enhanced securities lending disclosures could be beneficial to investors and counterparties. *See, e.g.*, SIFMA/IAA FSOC Notice Comment Letter, *supra* note 43 ("Disclosures related to securities lending practices, if appropriately tailored, could potentially assist investors and counterparties in making informed choices about where they deploy their assets and how they engage in lending practices."); Comment Letter of the Vanguard Group, Inc. (Mar. 25, 2015) ("Vanguard FSOC Notice Comment Letter") (asserting that securities lending as a whole suffers from a lack of readily available data, and supporting further efforts to gather data and study the practice of securities lending).

[72] *See infra* text following note 276 (discussing proposed disclosures in the notes to funds' financial statements that would allow investors to better understand the income generated from, as well as the expenses associated with, securities lending activities).

funds as a subset of the universe of market participants engaged in securities lending activities.[73]

Counterparty Information. One risk that funds engaging in securities lending are exposed to is counterparty risk because borrowers could fail to return the loaned securities. In this event, the lender would keep the collateral. Collateral is generally posted in cash and, in practice, the loan is generally over-collateralized. The collateral requirements thereby mitigate the extent of a fund's counterparty risk. In some cases, this risk is further mitigated for the fund if the fund's securities lending agent indemnifies the fund against default by the borrower.

While we believe there is value to having information concerning securities lending counterparties to monitor risk, as well as to monitor compliance with conditions set forth in staff no-action letters and exemptive orders,[74] we are proposing to require that funds report, for each of their securities lending counterparties as of the reporting date, the full name and LEI of the counterparty (if any), as well as the aggregate value of all securities on loan to the counterparty, rather than at the loan level.[75] We believe that disclosure of counterparty information at an aggregate portfolio level would provide the Commission and investors with information to better understand the level of potential counterparty risk assumed as part of the fund's securities lending program, with a lower relative burden on funds than requesting such information on a per loan level.

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[73] *See, e.g.*, section 984(b) of the Dodd-Frank Act, Pub. L. No 111-203, 124 Stat. 1376 (2010) (directing the Commission to promulgate rules designed to increase the transparency of information available to brokers, dealers, and investors, with respect to the loan or borrowing of securities).

[74] *See generally* Securities Lending Summary, *supra* note 65.

[75] Form N-PORT, Item B.4.

We request comment on the portfolio level securities lending information requirements we are proposing.

- As discussed above, Form N-PORT would require funds to disclose the aggregate value of all securities on loan to each securities lending counterparty and the name and LEI (if any) of the counterparty. Should we instead require funds to report this information on a loan-by-loan or security-by-security basis? To what extent, if any, would such information be used by investors and other potential users? What, if any, additional issues would funds face in tracking and reporting such information on a loan-by-loan or security-by-security basis? Do funds currently track or have the ability to readily determine their counterparty exposure on a loan-by-loan or security-by-security basis? If securities lending counterparty information should be reported on a loan-by-loan or security-by-security basis, is there any additional or alternative information we should require funds to report, such as the rebate or compensation to the securities lending agent?
- Instead of requiring funds to report the aggregate value of all securities on loan to each securities lending counterparty, should we limit such disclosures to counterparties to which the fund has the greatest exposure, such as the top five or top ten counterparties?[76] Alternately, should we require funds to report aggregate exposure to a given counterparty only if such exposure constitutes more than a certain percentage of the NAV of the fund (*e.g.,* one percent)? Would either approach more appropriately consider the costs of tracking and reporting such

[76] *Cf.* Form PF, Section 1c, Item 22 (requiring advisers to private funds to report exposures to the five counterparties to which the reporting fund has the greatest mark-to-market net counterparty credit exposure).

information and the benefits that increased transparency would provide to the Commission and other potential users?

- Alternately, or in addition, should the Commission request information regarding other types of counterparty exposures? For example, should the Commission require funds to report counterparty exposures based on the amount of unsettled trades with each counterparty? If so, should such information be reported in terms of aggregate or net exposure, and why?

e. Return Information

We are proposing to require funds to provide monthly total returns for each of the preceding three months.[77] If the fund is a multiple class fund, it would report returns for each class.[78] Funds with multiple classes would also report their class identification numbers.[79] Funds would calculate returns using the same standardized formulas required for calculation of returns as reported in the performance table contained in the risk-return summary of the fund's prospectus and in fund sales materials.[80]

We are proposing to require this information on Form N-PORT because we believe it would be useful to have such information in a structured format to facilitate comparisons across funds. For example, analysis of return information over time among similar funds could reveal outliers that might merit further inquiry by Commission staff.

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77 *See* Form N-PORT, Item B.5.a.

78 *See id*.

79 *See* Form N-PORT, Item B.5.b.

80 *See* Form N-1A, Item 26(b)(1); Form N-2, Item 4, Instruction 13; Form N-3, Item 26(b)(i).

Additionally, performance that appears to be inconsistent with a fund's investment strategy or other benchmarks can form a basis for further inquiry and monitoring.[81]

Because only quarter-end reports on Form N-PORT would be made public, we are proposing that funds provide return information for each of the preceding three months.[82] This would provide investors and other potential users with monthly return information, so that they would have access to each month's return on a quarterly basis. Otherwise, we are concerned that investors might potentially confuse the month's disclosed return as representing the return for the full quarter.

We are also proposing that funds report, for each of the preceding three months, monthly net realized gain (or loss) and net change in unrealized appreciation (or depreciation) attributable to derivatives for each of the following categories: commodity contracts, credit contracts, equity contracts, foreign exchange contracts, interest rate contracts, and other derivatives contracts.[83] This item is modeled after disclosure requirements in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 815, which governs the accounting disclosure for derivatives and hedging. This information would help the Commission staff, investors, and other

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[81] Similar risk analytics were used in the Commission's Aberrational Performance Inquiry, an initiative by the Division of Enforcement's Asset Management Unit to identify hedge funds with suspicious returns. *See, e.g.*, Press Release, SEC Charges Hedge Fund Adviser and Two Executives with Fraud in Continuing Probe of Suspicious Fund Performance (Oct. 17, 2012), *available at* http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171485332.

[82] *See* Form N-PORT, Item B.5.a. Although generally only information reported on Form N-PORT for the third month of each fund's fiscal quarter would be publicly available, the concerns associated with more frequent public disclosure are related to the disclosure of portfolio holdings information and would not apply to the disclosure of fund return information. *See generally* note 170 and accompanying and following text (discussing the risks of predatory trading practices such as front-running and the ability of outside investors to reverse engineer and copycat fund's investment strategies).

[83] *See* Form N-PORT, Item B.5.c.

potential users better understand how a fund is using derivatives in accomplishing its investment strategy and the impact of derivatives on the fund's returns. In order to provide a point of comparison, we are also proposing that funds report, for each of the last three months, monthly net realized gain (or loss) and net change in unrealized appreciation (or depreciation) for investments other than derivatives.[84]

We request comment on the return information we are proposing in Form N-PORT.

- Should the Commission consider, as an alternative, requiring funds to provide monthly return information annually on Form N-CEN, rather than on Form N-PORT? Would this significantly reduce the burden of reporting such information?
- We are proposing to require that funds report three months of returns so that investors and other potential users, who would only observe reports on Form N-PORT on a quarterly basis, would still receive return data for each month of the year. Do commenters agree that such disclosure of monthly returns would be helpful to investors? Are there preferable alternatives for providing such information to investors? Are there potential negative consequences of reporting monthly returns? For example, could the availability of this information cause investors to emphasize short-term returns?

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[84] *See* Form N-PORT, Item B.5.d. Our proposal would also amend Regulation S-X to require funds to report similar information in their financial statements, although Regulation S-X would require such information to be aggregated by type of derivative contract, rather than by category of exposure as required by Form N-PORT. We discuss below our reasons for proposing information to be reported based on contract type on Regulation S-X. *See infra* Part II.C.

- We request comment on alternative requirements for fund reporting of return information. For example, the Commission requests comment on whether to require reporting by funds of gross returns. Would gross information, with or without accompanying fee information for each class, be confusing for investors? If so, are there ways to mitigate the risk of investor confusion? Instead of requiring reporting of returns for all classes, should the Commission, for example, require funds to report return information for a single class, such as the class with the highest expense ratio or the largest share class in terms of assets under management? What would be the relative benefits and burdens of only requiring disclosure of a single class?
- Are there alternative methods that the Commission should consider for requiring funds to report the effect of derivatives on the return of the fund? For example, should the Commission require that funds report the monthly net realized gain or loss and net change in unrealized appreciation or depreciation attributable to derivatives by type of derivative (*i.e.*, forward, future, option, swap), rather than by category of exposure? What would be the burden and benefits of reporting such information relative to the proposed requirement?

f. Flow Information

Form N-PORT would require funds to separately report, for each of the preceding three months, the total net asset value of: (1) shares sold (including exchanges but excluding reinvestment of dividends and distributions); (2) shares sold in connection with reinvestments of dividends and distributions; and (3) shares redeemed or repurchased

(including exchanges).[85] This information is similar to what is currently reported on Form N-SAR, and would be generally reported subject to the same guidelines that currently govern reporting of flow information on that form.[86] We propose to require this information on Form N-PORT because we believe that this information would be more helpful if reported on a monthly basis rather than retrospectively on an annual basis on Form N-CEN.

We believe that having flow information reported to us monthly will help us better monitor trends in the fund industry. For example, it could help us analyze types of funds that are becoming more popular among investors and areas of high growth in the industry. It could help us better examine investor behavior in response to market events. Finally, in combination with other information reported on Form N-PORT regarding liquidity of fund positions, it could also help us identify funds that might be at risk of experiencing liquidity stress due to increased redemptions.

- What would be the costs and burdens of providing flow information on a monthly basis on Form N-PORT? Should the Commission consider, as an alternative,

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85 *See* Form N-PORT, Item B.6.

86 Similar to Form N-SAR, Form N-PORT would instruct funds to report amounts after any front-end sales loads had been deducted and before any deferred or contingent deferred sales loads or charges had been deducted. Shares sold would include shares sold by the fund to a registered UIT. Funds would also include as shares sold any transaction in which the fund acquired the assets of another investment company or of a personal holding company in exchange for its own shares. Funds would include as shares redeemed any transaction in which the fund liquidated all or part of its assets. Exchanges would be defined as the redemption or repurchase of shares of one fund or series and the investment of all or part of the proceeds in shares of another fund or series in the same family of investment companies. *Cf.* Form N-PORT, Item B.6 and Item 28 of Form N-SAR (requiring reporting of monthly sales and repurchases of the Registrant's/Series' shares for the past six months).

requiring funds to provide monthly flow information annually on Form N-CEN, rather than on Form N-PORT?

- To what extent would the usefulness of the flow information be affected by the fact that omnibus accounts, which generally have significant amounts of purchases and redemptions, typically net their transactions prior to executing with the funds' transfer agents? Should the Commission revise the proposed flow disclosures to address this issue and, if so, how?
- Form N-SAR currently also requires funds to report flow information related to "other" shares sold (*i.e.*, other than through new sales and exchanges and reinvestments of dividends and distributions).[87] Should the Commission also require funds to report this category of flow information on Form N-PORT? What would be the utility of requesting flow information to be separately reported in this additional category?
- Should we require that flow information be reported as to each class of the fund? Would such additional information be helpful to investors and other potential users? What would be the burdens to funds with multiple classes of reporting such information?

g. Schedule of Portfolio Investments

Part C of proposed Form N-PORT would require funds to report certain information on an investment-by-investment basis about each investment held by the fund and its consolidated subsidiaries as of the close of the preceding month. Funds would respond to certain questions that would apply to all investments (*i.e.*, the

[87] *See id.*

investment's identification, amount, payoff profile, asset and issuer type, country of investment or issuer, and fair value level, and whether the investment was a restricted security or illiquid asset). Funds would also respond, if relevant, to additional questions related to specific types of investments (*i.e.*, debt securities, repurchase and reverse repurchase agreements, derivatives, and securities lending).

Funds would have the option of identifying any investments that are "miscellaneous securities."[88] Unless otherwise indicated, funds would not report information related to those investments in Part C, but would instead report such information in Part D.[89]

i. Information for All Investments

Proposed Form N-PORT would require funds to report certain basic information about each investment. In particular, funds would report the name of the issuer and title of issue or description of the investment, as they are currently required to do on their reported schedules of investments.[90]

To facilitate analysis of fund portfolios, it is important for Commission staff to be able to identify individual portfolio securities, as well as the reference instruments of derivative investments through the use of an identifying code or number, which is not currently required to be reported on the schedule of investments. Fund shareholders and potential investors that are analyzing fund portfolios or investments across funds could similarly benefit from the clear identification of a fund's portfolio securities across funds.

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88 *See* Form N-PORT, Part D. *See also supra* note 49 and accompanying text.

89 *See infra* note 150 and accompanying and following text.

90 *See* Form N-PORT, Items C.1.a and C.1.c.

The staff has found that some securities reported by funds lack a securities identifier, and this absence has reduced the usefulness of other information reported.[91]

To address this issue, we propose to require that funds report additional information about the issuer and the security. Funds would report certain securities identifiers, if available.[92] For example, for swaps and security-based swaps, funds could report the product identification number used for reporting such instrument to a swap data repository or securities-based swap data repository, if available.[93] If a unique identifier is reported, funds would also indicate the type of identifier used.[94] Such an identifier may be internally generated by the fund or provided by a third party, but should be consistently used across the fund's filings for reporting that investment so that the Commission, investors, and other potential users of the information can track the investment from report to report.

We also propose to require funds to report the amount of each investment as of the end of the reporting period, as is currently required under Regulation S-X.[95] Funds would report the number of units or principal amount for each investment, as well as the value of each investment at the close of the period, and the percentage value of each

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91 Our inability to identify specific securities has limited our ability in other contexts to compare ownership of the securities across multiple funds and monitor issuer exposure. For example, during the month of February 2013, money market funds reported 6,821 securities without CUSIPs (approximately 10% of all securities reported on Form N-MFP).

92 *See* Form N-PORT, Item C.1.b and C.1.d to C.1.e (requiring reporting of identifiers such as LEI of the issuer, CUSIP, ISIN, ticker or other unique identifier).

93 *See infra* notes 138-140 (discussing product identifiers for security-based swaps and swaps, as addressed in rulemakings by the Commission and Commodity Futures Trading Commission, respectively).

94 *See* Form N-PORT, Item C.1.e.iii.

95 *See* Form N-PORT, Item C.2. *See* rule 12-12 of Regulation S-X.

investment when compared to the net assets of the fund.[96] Funds would also report the currency in which the investment was denominated, and, if not denominated in U.S. dollars, the exchange rate used to calculate value.

Our proposal would also require funds to report the payoff profile of the investment, indicating whether the investment is held long, short, or N/A, which would serve the same purpose as the current requirement in Regulation S-X to disclose investments sold short.[97] Funds would respond N/A for derivatives and would respond to relevant questions that indicated the payoff profile of each derivative in the derivatives portion of the form. These disclosures would identify short positions in investments held by funds.

Funds would also report the asset type for the investment: short-term investment vehicle (*e.g.*, money market fund, liquidity pool, or other cash management vehicle), repurchase agreement, equity-common, equity-preferred, debt, derivative-commodity, derivative-credit, derivative-equity, derivative-foreign exchange, derivative-interest rate, structured note, loan, ABS-mortgage backed security, ABS-asset backed commercial paper, ABS-collateralized bond/debt obligation, ABS-other, commodity, real estate, other) and issuer type (corporate, U.S. Treasury, U.S. government agency, U.S. government sponsored entity, municipal, non-U.S. sovereign, private fund, registered fund, other).[98] We have based these categories in part on staff review of how funds currently categorize investments on their schedule of investments, and in part on the

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[96] *See* Form N-PORT, Item C.2.a to C.2.d. For derivatives, as appropriate, funds would provide the number of contracts.

[97] *See* Form N-PORT, Item C.3. *See* rule 12-12A of Regulation S-X.

[98] *See* Form N-PORT, Item C.4.a and C.4.b.

categories of investments required by private funds under Form PF.[99] These disclosures would allow the Commission, investors, and other potential users to assess the composition of fund portfolios in terms of asset and issuer types and also facilitate comparisons among similar types of investments.

Our proposal would also require funds to report, for each investment, whether the investment is a restricted security and whether the investment is an illiquid asset.[100] These disclosures would provide investors and the Commission staff with more information about liquidity risks associated with the fund's investments.

Each fund would also report whether the investment is categorized by the fund as a Level 1, Level 2, or Level 3 fair value measurement in the fair value hierarchy under U.S. Generally Accepted Accounting Principles ("U.S. GAAP").[101] Commission staff

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99 *See, e.g.*, Form PF, Item 26 (requiring filers to report exposures by asset type); Form N-Q, Item 1 (requiring filers to report the schedules of investments required by sections 210.12-12 to 12-14 of Regulation S-X); Form N-CSR, Item 1 (requiring filers to attach a copy of the report transmitted to shareholders, which would include schedules of investments required by sections 210.12-12 to 12-14 of Regulation S-X).

100 *See* Form N-PORT, Items C.6 and C.7. "Restricted security" would have the definition provided in rule 144(a)(3) under the Securities Act [17 CFR 230.144(a)(3)]. *See* Form N-PORT, General Instruction E. *See also* proposed rule 12-13, nn.6 and 8 of Regulation S-X, which would require similar disclosures in funds' schedules of investments to identify securities that are restricted or illiquid.

Form N-PORT would define "illiquid asset" as "an asset that cannot be sold or disposed of by the Fund in the ordinary course of business within seven calendar days, at approximately the value ascribed to it by the Fund." *See* Form N-PORT, General Instruction E. This definition is the same definition used in the liquidity guidance issued by the Commission for open-end funds. *See* Revisions of Guidelines to Form N-1A, Investment Company Act Release No. 18612 (Mar. 12, 1992) [57 FR 9829 (Mar. 20, 1992)] ("1992 Release"). As recently stated by Chair Mary Jo White, the Division of Investment Management is considering a recommendation that the Commission update liquidity standards for open-end funds and ETFs, which may result in updated guidance on this issue. *See* Speech by Securities and Exchange Commission Chair Mary Jo White (Dec. 11, 2014), *available at* http://www.sec.gov/News/Speech/Detail/Speech/1370543677722.

101 *See* ASC 820. An investment is categorized in the same level of the fair value hierarchy as the lowest level input that is significant to its fair value measurement. Level 1 inputs include

could use this information to identify and monitor investments that may be more susceptible to increased valuation risk and identify potential outliers that warrant additional monitoring or inquiry.[102] In addition, Commission staff would be better able to identify anomalies in reported data by aggregating all fund investments industry-wide into the various level categories. Currently, funds are required to evaluate the fair value level measurement of each investment as part of the fair value level hierarchy disclosure in their financial statements.[103] We believe that based on this requirement, funds should have pricing information available to determine the categorization of their portfolio investments as Level 1, Level 2, or Level 3 within the fair value hierarchy.

Form N-PORT would also require funds to report the country that corresponds to the country of investment or issuer based on the concentrations of the risk and economic exposure of the investment. Additionally, funds would be required to report the country in which the issuer is organized if that is different from the country of risk and economic exposure.[104]

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quoted prices (unadjusted) for identical investments in an active market (*e.g.*, active exchange-traded equity securities). Level 2 inputs include other observable inputs, such as: (i) quoted prices for similar securities in active markets; (ii) quoted prices for identical or similar securities in non-active markets; and (iii) pricing models whose inputs are observable or derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the security. Level 3 inputs are unobservable inputs. We are proposing amendments to Regulation S-X to require that funds identify level 3 securities in their schedules of investments. *See infra* Part II.C.3.

[102] For a discussion of some of the challenges regulators may face with respect to Level 3 accounting, *see, e.g.*, Konstantin Milbradt, *Level 3 Assets: Booking Profits and Concealing Losses*, in 25 Rev. Fin. Stud. 55-95 (2011).

[103] ASC 820-10-50-2 requires for each class of assets and liabilities measured at fair value, the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3).

[104] *See* Form N-PORT, Item C.5. Currently, funds are required to report the related industry, country, or geographic region of the investment in their schedules of investments. As

These disclosures would provide the Commission staff and investors with more information about country-specific exposures associated with the fund's investments. Specifically, the Commission believes that providing both the country based on concentrations of risk and economic exposure and also the country in which the issuer is organized would assist the Commission, investors, and other potential users in understanding the country-specific risks associated with such investments. For example, knowing the country of risk and economic exposure is important for understanding the effect of such investments in a portfolio when that country might be going through times of economic or political stress, regardless of whether the investment is issued in a different country. Knowing the country in which the issuer is organized would be important information for analyzing the effect of any events that could affect the country in which the issuer is organized, such as sanctions or monetary controls, as this could affect the ability of the fund to liquidate the investment.

We request comment on our proposed disclosure requirements.

- Our proposal would require funds to report certain identifiers for their investments. Should the Commission include additional specific identifiers in Form N-PORT, such as the Financial Instrumental Global Identifier ("FIGI") or other similar identifier, if available?[105] If so, which identifier or identifiers would be expected to be reported? Are there any special considerations relating to the

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discussed below, we are proposing to amend Regulation S-X to require funds to report the industry and the country or geographic region of the investment. *See infra* Part II.C.3.

[105] Information about the FIGI is available on the Object Management Group's website, a not-for-profit technology standards consortium. *See generally* Object Management Group, Documents Associated With Financial Industry Global Identifier (FIGI) Version 1.0 – Beta 1, *available at* http://www.omg.org/spec/FIGI/1.0/Beta1/.

use of any identifiers (*e.g.*, licensing fees associated with certain identifiers, the prevalence of a particular identifier as adopted by the marketplace, etc.) that could be addressed through these reporting requirements? If so, how should the requirements be restructured to address those considerations while still providing the Commission and investors the necessary identifying information?

- We request comment on our proposal to require funds to provide other unique identifiers for investments that do not have ISIN or ticker identifiers. Should the Commission require, in certain circumstances, specific identifiers to be reported as other unique identifiers? For example, in the case of security-based swaps, should the Commission require funds to report unique product identifiers?[106] If so, why?
- How, if at all, should we modify our proposed disclosures for the amount of each investment at the end of the reporting period (as well as the currency in which it is denominated)? Likewise, should we modify our proposed disclosures for the payoff profile of each investment and the restricted/illiquid nature of securities? If so, why?
- Would our proposed asset and issuer categories allow funds to readily categorize the investments typically held in fund portfolios? Should we include additional or alternative categories, and if so why? For example, are there any specific asset subcategories with sufficiently unique features as to warrant their own asset category? To the extent that funds currently are not categorizing their

[106] *See infra* note 139 and accompanying and following text.

investments as proposed in Form N-PORT, what costs would be associated with providing such information?

- Should any of these disclosures be aggregated and reported on a portfolio basis, rather than at an individual investment level? Alternately, should any of the proposed portfolio level information be reported on an individual investment level?
- We request comment on the incremental burden of reporting this information for each investment held by the fund, relative to the current burden of reporting the total value of each class of investments categorized in each level of the fair value hierarchy, as currently required by U.S. GAAP. Are there other ways in which a fund could identify and disclose investments that do not have readily available market quotations or observable inputs as an alternative to disclosing each investment's categorization as a Level 1, Level 2, or Level 3 measurement?
- Are there additional items that should be included on Form N-PORT in order to improve the transparency regarding the liquidity and valuation of investments? For example, should the Commission require additional disclosure regarding the fund's valuation of its investments, such as the primary pricing source used (*e.g.*, exchange, broker quote, third-party pricing service, internal fair value), the name of any third-party pricing source, or whether an independent consultant or appraiser assisted with development of internal fair value? If so, should such information be disclosed on an individual security basis? Would such information increase the transparency of the pricing of thinly traded securities?

Would investors benefit from such information and, if so, how? What costs and burdens would be associated with providing such information?

- Should the Commission require funds to report both the country in which the issuer is organized and also the country with the greatest concentrations of risk and economic exposure of the investments? What is the burden of reporting both elements, if different? Should the Commission provide specific guidance or instructions for determining the country with the greatest concentration of risks and economic exposure? Should funds have the option of reporting more than one country of economic risk, or a geographic region of economic risk?
- Should funds not be required to report country codes for U.S. investments? Would such an exclusion result in reduced burdens for funds that held only domestic securities? On the other hand, would such an exclusion result in investor confusion or complicate data validation efforts, by, for example, rendering it unclear whether an investment with N/A reported for its country code was a U.S. investment or was instead a foreign investment for which a country code had not been properly reported?

ii. Debt Securities

In addition to the information required above, Form N-PORT would require additional information about each debt security held by the fund in order to gain transparency into the payment flows and convertibility into equity of such investments, as such information can be used to better understand the payoff profile and credit risk of these investments. First, funds would report the maturity date and coupon (reporting

annualized rate and indicating whether fixed, floating, variable, or none).[107] Funds would also indicate whether the security is currently in default, whether interest payments for the security are in arrears or whether any coupon payments have been legally deferred by the issuer, as well as whether any portion of the interest is paid in kind.[108]

Finally, we are proposing to require additional information for convertible securities, to indicate whether the conversion is mandatory or contingent.[109] We are also proposing to require funds to disclose for each convertible security the conversion ratio, information about the asset into which the debt is convertible, and the delta, which is the ratio of the change in the value of the option to the change in the value of the asset into which the debt is convertible. This reflects the sensitivity of the debt's value to changes in the price of the asset into which the debt is convertible. The proposed requirement to provide the delta would also be required for options, as discussed further below, because convertible securities have optionality.[110] For similar reasons discussed below regarding options, the Commission believes that providing the delta for convertible securities is important to understand the extent of both the credit exposure of the debt portion of the convertible bond as well as the market price exposure relative to the underlying security into which it can be converted or exchanged.

We request comment on our proposed disclosure requirements for debt securities.

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[107] *See* Form N-PORT, Items C.9.a and C.9.b.

[108] *See* Form N-PORT, Items C.9.c to C.9.e.

[109] *See* Form N-PORT, Item C.9.f.

[110] *See* text accompanying and following note 127 (discussing information required for options, including delta).

- Are there additional or alternative characteristics of debt securities that we should require to be disclosed to assist the Commission, investors, or other potential users in understanding the nature and risks of a fund's debt security investments? For example, would disclosure of which debt securities are guaranteed, the nature of such guarantee (*e.g.*, guarantee insurance or letter of credit), and the identity of the guarantor, be useful to investors? Alternately, or in addition, should the Commission require disclosure regarding the frequency of coupon payments, principal payback schedule, priority in security structure (*e.g.*, senior, subordinated, etc.), embedded options (if any), insurance wrapper (if any), and whether the debt is secured?
- We request comment on our proposed disclosure requirements for convertible securities. With regard to the delta, to what extent would the inputs and assumptions underlying the methodology by which funds calculate price changes affect the values reported? Are there liability or other concerns associated with the reporting of such measures with such inputs and assumptions? How would the comparability of information reported between funds be affected if funds used different inputs and assumptions in calculating delta, such as different assumptions regarding the values of the funds' portfolios? Are there ways the Commission could improve the standardization of the calculation of delta? If so, how? What would the associated costs and other burdens be for funds to calculate and report these measures according to a different methodology than that typically used by the fund?

iii. Repurchase and Reverse Repurchase Agreements

In addition to the information required above for all investments, Form N-PORT would require each fund to report additional information for each repurchase and reverse repurchase agreement held by the fund. The fund would report the category that reflects the transaction from the perspective of the fund (repurchase, reverse repurchase), whether the transaction is cleared by a central counterparty—and if so the name of the central counterparty—or if not the name and LEI (if any) of the over-the-counter counterparty, repurchase rate, whether the repurchase agreement is tri-party (to distinguish from bilateral transactions), and the maturity date.[111] Funds would also report the principal amount and value of collateral, as well as the category of investments that most closely represents the collateral.[112]

These disclosures would enhance the information currently reported regarding funds' use of repurchase agreements and reverse repurchase agreements. Information regarding repurchase agreements would be comparable to similar disclosures currently required to be made by money market funds on Form N-MFP. The categories used for reporting collateral would track the categories currently used to report tri-party repurchase agreement information to the Federal Reserve Bank of New York. We believe that conforming the categories that would be used in Form N-PORT to categories

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[111] *See* Form N-PORT, Items C.10.a to C.10.e.

[112] *See* Form N-PORT, Item C.10.f. Funds would report the category of investments that most closely represents the collateral, selected from among the following (asset-backed securities; agency collateralized mortgage obligations; agency debentures and agency strips; agency mortgage-backed securities; private label collateralized mortgage obligations; corporate debt securities; equities; money market; U.S. Treasuries (including strips); other instrument). If "other instrument," funds would also include a brief description, including, if applicable, whether it is a collateralized debt obligation, municipal debt, whole loan, or international debt.

used in other reporting contexts would ease reporting burdens and enhance comparability.[113]

We request comment on our proposed disclosure requirements above.

- As discussed above, the reporting requirements contained in Form N-PORT would be comparable to similar disclosures currently required to be made by money market funds on Form N-MFP concerning repurchase agreements. Should we collect different or additional information? For example, should the proposed reporting requirements be revised to encompass characteristics of bilateral repurchase and reverse repurchase agreements, which are not typically held by money market funds but we understand are more commonly held by funds that would be reporting on Form N-PORT? If so, how? Should the categories used for reporting collateral, which as proposed would track the categories currently used to report tri-party repurchase agreement information to the Federal Reserve Bank of New York, be revised? If so, how and why?
- We believe that funds already track the characteristics of their repurchase and reverse repurchase agreements that we would require to be reported on Form N-PORT. To the extent this is true, what would be the incremental cost and burden of reporting such information to the Commission?

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[113] *See* Money Market Fund Reform 2014 Release, *supra* note 13, at nn.1515-1518 and accompanying text (discussing comment letter stating that the categories used to report collateral for tri-party repurchase agreements to the Federal Reserve Bank of New York would allow for regular and efficient comparison of current and historical risk factors regarding repurchase agreements on a standardized basis).

- Are there additional or alternative disclosures that we should require to be reported to assist investors in understanding counterparty and other risks associated with the fund's repurchase and reverse repurchase agreements?

iv. Derivatives

As discussed above, the current reporting regime for derivatives has led to inconsistent approaches to reporting derivatives information and, in some cases, insufficient information concerning the terms and underlying reference assets of derivatives to allow the Commission or investors to understand the investment. Additionally, as discussed further below, for options, the Commission believes that it would be important to have a measurement of "delta," a measure not reported in the financial statements or schedule of investments, to better understand the exposure to the underlying reference asset that the options produce in the portfolio. Currently, the Commission and investors are sometimes unable to accurately assess funds' derivatives investments and the exposures they create, which can be important to understanding funds' investment strategies, use of leverage, and risk of loss. Our proposal is intended to increase transparency into funds' derivatives investments by requiring funds to disclose certain characteristics and terms of derivative contracts that are important to understand the payoff profile of a fund's investment in such contracts, as well as the exposures they create or hedge in the fund. This would include, for example, exposures to currency fluctuations, interest rate shifts, prices of the underlying reference asset, and counterparty credit risk. As discussed further below, we are also amending Regulation S-X to make similar changes to the reporting regime for derivatives disclosures in fund financial statements.

Consequently, in addition to the information required above for all investments, Form N-PORT would require additional information about each derivative contract in the fund's portfolio. Funds would report the category of derivative that most closely represents the investment (*e.g.*, forward, future, option, etc.).[114] Funds would also report the name and LEI (if any) of the counterparty (including a central counterparty).[115] This identifying information should assist the Commission, investors, and other potential users in better identifying and monitoring the categories of derivatives held by funds and the associated counterparty risks.[116]

Form N-PORT would also require funds to report terms and conditions of each derivative investment that are important to understanding the payoff profile of the derivative.[117] For options and warrants, including options on a derivative (*e.g.*,

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[114] *See* Form N-PORT, Item C.11.a. Funds would report the category of derivative that most closely represents the investment, selected from among the following (forward, future, option, swaption, swap, warrant, other). If "other," funds would provide a brief description.

[115] *See* Form N-PORT, Item C.11.b.

[116] Commenters to the FSOC Notice indicated that counterparty data for derivative disclosures is not often available and discussed the need to have more transparency in this regard. *See, e.g.*, Comment Letter of Americans for Financial Reform (Mar. 27, 2015) ("Americans For Financial Reform FSOC Notice Comment Letter") (asserting that counterparty data in derivative disclosures is not often available); Comment Letter of the Systemic Risk Council (Mar. 25, 2015) ("Systemic Risk Council FSOC Notice Comment Letter") (discussing the need to have information about investment vehicles that hold bank liabilities).

[117] We are proposing to require similar information on a fund's schedule of investments. *See* Part II.C.2. Commenters to the FSOC Notice were supportive of enhanced derivatives disclosures. *See, e.g.,* Systemic Risk Council FSOC Notice Comment Letter, *supra* note 116 ("While most managed funds do not employ leverage to the same degree that banks do, we encourage regulators to consider carefully whether there are potential improvements to the current data collection regime (*e.g.*, for registered investment advisers) that would allow regulators to track the presence and concentration of leverage in the asset management industry, particularly as it arises from use of derivatives…."); Americans for Financial Reform FSOC Notice Comment Letter, *supra* note 116 (stating that regulatory oversight should include ensuring appropriate transparency of fund positions to both investors and regulators, asserting that current derivatives disclosure requirements for registered investment companies "appear very poor," noting the deficiency of just current accounting values and

swaptions), funds would report the type (*e.g.*, put), payoff profile (*e.g.*, written), number of shares or principal amount of underlying reference instrument per contract, exercise price or rate, expiration date, and the unrealized appreciation or depreciation of the option or warrant.[118] Form N-PORT would require funds to provide a description of the reference instrument, including name of issuer, title of issue, and relevant securities identifier.[119]

We recognize that some derivatives have underlying assets that are indices of securities or other assets or a "custom basket" of assets, the components of which are not publicly available. We are proposing requirements to ensure that the Commission, investors, and other potential users are aware of the components of such indices or custom baskets. If the reference instrument is an index for which the components are publicly available on a website and are updated on that website no less frequently than quarterly, funds would identify the index and provide the index identifier, if any.[120] We

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expressing the need for risk and exposure metrics that show the potential losses or gains to the fund if market prices change, and suggesting that new disclosures should require derivatives data to be sufficiently granular such that regulators and market participants could perform their own independent calculations of risk exposure, rather than relying on aggregated metrics of total risk); Vanguard FSOC Notice Comment Letter, *supra* note 71 (asserting that regulators would benefit by better understanding how and why mutual funds use derivatives).

[118] *See* Form N-PORT, Item C.11.c. The type of warrant or option would be selected from among the following (put or call). The payoff profile of the warrant or option would be selected from among the following (written or purchased). Funds would respond N/A for warrants for both type and payoff profile. As discussed above, funds would report the number of option contracts in Item C.2.a of Form N-PORT. *See supra* note 96 and accompanying text.

[119] *See* Form N-PORT, Items C.11.c.iii.2 and C.11.c.iii.3. For the securities identifier, funds would report, if available, CUSIP of the reference asset, ISIN (if CUSIP is not available), ticker (if CUSIP and ISIN is not available), or other unique identifier (if CUSIP, ISIN, and ticker are not available). *See also supra* note 92 and accompanying and following text.

[120] *See* Form N-PORT, Item C.11.c.iii.2.

are proposing to require at least quarterly public disclosure for the components of the index because it matches the frequency with which funds are currently required and, as proposed in this release, would continue to be required, to disclose their portfolio holdings.[121] If the index's components are not publicly available as provided above, and the notional amount of the derivative represents 1% or less of the NAV of the fund, the fund would provide a narrative description of the index.[122] If the index's components are not publicly available in that manner, and the notional amount of the derivative represents more than 1% of the NAV of the fund, the fund would provide the name, identifier, number of shares or notional amount or contract value as of the trade date (all of which would be reported as negative for short positions), value, and unrealized appreciation or depreciation of every component in the index.[123]

We are proposing this requirement because we believe that it is important for the Commission, investors, and other potential users to have transparency into all exposures to assets that the fund has, regardless of whether the fund directly holds investments in those assets or chooses to create those exposures through a derivatives contract.[124] We are proposing the 1% notional amount threshold based on our experience with the summary schedule of investments, which requires funds to disclose investments for

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[121] *See infra* Part II.A.4 (discussing proposed rules concerning the public disclosure of reports on Form N-PORT).

[122] *See supra* note 120.

[123] *See id*. Short positions in the index, if any, would be reported as negative numbers. The identifier for each index component would include CUSIP, ISIN (if CUSIP is not available), ticker (if CUSIP and ISIN are not available), or other identifier (if CUSIP, ISIN, and ticker are not available. If other identifier is provided, the fund would indicate the type of identifier used.

[124] We are also proposing to modify Regulation S-X to require similar disclosures. *See infra* Part II.C.2.a (discussing proposed rule 12-13, n.3 of Regulation S-X).

which the value exceeds 1% of the fund's NAV in that schedule.[125] We believe that, similar to this threshold in the summary schedule of investments, providing a 1% *de minimis* for disclosing the components of a derivative with nonpublic reference assets considers the need for the Commission, investors, and other potential users to have transparency into the exposures that derivative contracts create while not requiring extensive disclosure of multiple components in a non-public index for instruments that represent a small amount of the fund's overall value.

If the reference instrument is a derivative, funds would indicate the category of derivative (*e.g.*, swap) and would provide all information required to be reported on Form N-PORT for that type of derivative.[126]

We are also proposing to require funds to report the delta of the option, which is the ratio of the change in the value of the option to the change in the value of the reference instrument.[127] This measure reflects the sensitivity of the option's value to changes in the price of the reference instrument. Disclosure of delta for options and warrants would provide the Commission, investors, and other potential users a more accurate measure of a fund's full exposure to the reference instrument than the option's notional amount, which we would otherwise not be able to determine. Accordingly, having the measurement of delta for options is important for the Commission, as well as investors and other potential users, to measure the impact, on a fund or group of funds

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[125] *See* rule 12-12C, n.3 of Regulation S-X.

[126] *See* Form N-PORT, Item C.11.c.iii.1. Funds would report the category of derivative that most closely represents the investment, selected from among the following (forward, future, option, swaption, swap, warrant, other). If "other," funds would provide a brief description.

[127] *See* Form N-PORT, Item C.11.c.vii.

that holds options on an asset, of a change in such asset's price. Also, as the Commission has previously observed, funds can use options as a form of obtaining a leveraged position in an underlying reference asset.[128] Having a measurement of exposures created through this type of leverage can help the Commission, investors, and other potential users better understand the risks that the fund faces as asset prices change, since the use of this type of leverage can magnify losses or gains in assets.

For futures and forwards (other than foreign exchange forwards, which share similarities with foreign exchange swaps and should be reported accordingly as discussed below), Form N-PORT would require funds to report a description of the reference instrument, the payoff profile (*i.e.*, long or short), expiration date, aggregate notional amount or contract value as of the trade date, and unrealized appreciation or depreciation.[129] The description of the reference instrument would conform to the same requirements as the description of reference instruments for warrants and options.[130]

For foreign exchange forwards and swaps, funds would report the amount and description of currency sold, amount and description of currency purchased, settlement date, and unrealized appreciation or depreciation.[131]

For swaps (other than foreign exchange swaps), funds would report the description and terms of payments necessary for a user of financial information to understand the nature and terms of payments to be paid and received, including, as applicable: a description of the reference instrument, obligation, or index; financing rate

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[128] *See* Derivatives Concept Release, *supra* note 7.

[129] *See* Form N-PORT, Item C.11.d.

[130] *See* Form N-PORT, Item C.11.d.ii. *See also supra* notes 119–126 and accompanying text.

[131] *See* Form N-PORT, Item C.11.e.

to be paid or received; floating or fixed rates to be paid and received; and payment frequency.[132] The description of the reference instrument would conform to the same requirements as the description of reference instruments for forwards and futures.[133] Funds would also report upfront payments or receipts, unrealized appreciation or depreciation, termination or maturity date, and notional amount.[134]

Finally, for derivatives that do not fall into the categories enumerated in Form N-PORT, funds would provide a description of information sufficient for a user of financial information to understand the nature and terms of the investment. This description would include, as applicable, currency, payment terms, payment rates, call or put features, exercise price, and a description of the reference instrument, among other things.[135] The description of the reference instrument would conform to the same requirements as the description of reference instruments for swaps.[136] Funds would also report termination or maturity (if any), notional amount(s), unrealized appreciation or depreciation, and the delta (if applicable).[137] We recognize that new derivative products will continue to evolve, and thus the disclosures for this category are intended to be flexible enough to encompass the changing needs and products that may emerge.

We request comment on our proposed disclosure requirements for derivatives.

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[132] *See* Form N-PORT, Item C.11.f.i. Funds would separately report the description and terms of payments to be paid and received. The description of the reference instrument, obligation, or index would include the information required to be reported for the descriptions of reference instruments for warrants, options, futures, or forwards.

[133] *See id*. *See also supra* note 130 and accompanying text.

[134] *See* Form N-PORT, Items C.11.f.ii to C.11.f.v.

[135] *See* Form N-PORT, Item C.11.g.1.

[136] *See* Form N-PORT, Item C.11.f.i. *See also supra* note 133 and accompanying text.

[137] *See* Form N-PORT, Items C.11.g.ii to C.11.g.v.

- Is there additional or alternative information about derivative contracts that we should be requiring? Should we modify the information we are proposing to require for any derivatives contracts? Should other terms and conditions, categories of derivatives, payoff profiles, or identifiers be included in Form N-PORT so that all material elements of derivatives contracts can be reported?
- For options, should funds be required to identify the option exercise type (*e.g.*, American, European, Bermudan, Asian, other) or report any additional information for more exotic option exercise types (*e.g.*, rainbow, barrier, lookback, etc.)?
- We recently adopted Regulation SBSR, which will require one of the parties to security-based swap transactions to report certain information to registered security-based swaps data repositories or the Commission.[138] The reporting party will report certain identifying information, including unique product identifiers to identify each security-based swap, as well as certain primary and secondary trade information, including the terms of any standardized fixed or floating rate payments, the frequency of any such payments, and any additional data elements included in the agreement between the counterparties that are necessary for a person to determine the market value of the transaction.[139] The Commodities Futures Trading Commission has engaged in similar efforts with regards to

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[138] *See* Regulation SBSR Adopting Release, *supra* note 40 (requiring the reporting of certain information for each registered security-based swap transaction to registered security-based swap data repositories or to the Commission, including unique product identifiers and transaction identifiers).

[139] *See* rule 901 of Regulation SBSR [17 CFR 242.901].

unique product identifiers that would be reported with regards to swaps.[140] Are there methods the Commission should consider to harmonize the SBSR reporting requirements with the proposed reporting requirements on Form N-PORT? For example, should we consider ways to allow a fund to import the data reported to swap and security-based swap data repositories automatically into the fund's reports on Form N-PORT? How would this affect investors' ability to analyze this data for swaps and security-based swaps held by funds? Should we require funds to report the product identifiers or any other data we are not currently proposing to require on Form N-PORT that will be required to be reported for swaps or security-based swaps? If so, why?

- Proposed Form N-PORT would require funds to list all underlying reference assets unless the underlying reference asset is an index whose components are publicly available on a website and are updated on that website no less frequently than quarterly, in which case funds would identify the index and publisher of the index, or unless the notional amount of the derivative represents 1% or less of the NAV of the fund, in which case funds would provide a narrative description of the index.[141] To the extent such indices are proprietary or subject to licensing agreements, what would be the effect of this requirement? For example, would funds incur costs for amending licensing agreements? Would index providers be willing to amend existing licensing agreements? If not, how would this impact

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[140] *See generally* Q&A — Swap Data Recordkeeping and Reporting Requirements, CFTC, *available at* http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/sdrr_qa.pdf.

[141] *See, e.g.*, *supra* notes 120–123.

funds that make such investments and the marketplace of fund options available to investors generally? Are there other concerns about disclosing the components of proprietary indices? Should we alter this requirement, and if so how? For example, should we not require funds to report underlying index components for derivatives unless the derivative's notional amount represents at least 5%, or some other percentage, of the NAV of the fund? Alternatively, should we limit the required disclosure of index components to the top 50 components and/or components that represent more than 1% of the index? If the reference asset is a modified version of an index whose components are publicly available on a website, for example a version that is customized to exclude certain issuers that the fund is restricted from owning, would requiring a narrative of those modifications be preferable to funds and investors rather than requiring each holding of the modified index to be listed? If so, should such narrative disclosure be reported in the "explanatory notes" section of Form N-PORT?[142]

- How, if at all, should we modify the proposed requirement to report delta? To what extent would the inputs and assumptions underlying the methodology by which funds calculate this measure affect the value reported? Are there potential liability or other concerns associated with the reporting of such measures according to such inputs and assumptions? For example, how would the comparability of information reported between funds be affected if funds used different inputs and assumptions in their methodologies?

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[142] *See infra* note 155 and accompanying and following text.

- Are there additional or alternative metrics that we should consider requiring to be reported? Would the disclosure of risk metrics such as vega—which measures the amount that an option contract's price changes in relation to a 1% change in the volatility of the underlying asset—or gamma—which measures the sensitivity of delta in response to price changes in the underlying instrument—enhance the utility of the derivatives information reported in Form N-PORT? What would be the costs and burdens to funds and benefits to investors and other potential users of requiring funds to report such additional or alternative metrics? How would the comparability of information reported by different funds be affected if funds used different inputs and assumptions in their methodologies, such as different assumptions regarding the values of the funds' portfolios?
- We believe that funds already track the characteristics of their derivatives that we would require to be reported on Form N-PORT. To the extent this is correct, what would be the incremental cost and burden of reporting such information to the Commission?

v. Securities on Loan and Cash Collateral Reinvestment

As discussed above, our proposal would require funds to report on Form N-PORT, for each of their securities lending counterparties as of the reporting date, the full name and LEI of the counterparty (if any), as well as the aggregate value of all securities on loan to the counterparty.[143] We are also proposing that funds report on Form N-PORT, on an investment-by-investment level, information about securities on loan and the reinvestment of cash collateral that secures the loans. For each investment

[143] *See supra* note 75 and preceding, accompanying, and following text.

held by the fund, a fund would report: (1) whether any portion of the investment was on loan by the fund, and, if so, the value of the securities on loan;[144] (2) whether any amount of the investment represented reinvestment of the cash collateral and, if so, the dollar amount of such reinvestment;[145] and (3) whether any portion of the investment represented non-cash collateral received to secure loaned securities and, if so, the value of the securities representing such non-cash collateral.[146]

These disclosures would provide information about how funds reinvest the cash collateral received from securities lending activity and should allow for more accurate determination of the value of collateral securing such loans. This could improve the ability of Commission staff, as well as investors, brokers, dealers, and other market participants to assess collateral reinvestment risks and associated potential liquidity and loss risks, as well as better understand leverage creation through the reinvestment of collateral.[147] These disclosures could also help identify those investments that one or more funds might have to sell or redeem in the event of widespread termination or default by borrowers. More generally, this information could help to address concerns expressed by industry participants about the lack of transparency in funds' securities lending transactions.[148]

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144 *See* Form N-PORT, Item C.12.c.

145 *See* Form N-PORT, Item C.12.a.

146 *See* Form N-PORT, Item C.12.b.

147 As discussed above, commenters to the FSOC Notice suggested that enhanced securities lending disclosures could be beneficial to investors and counterparties. *See supra* note 71.

148 *See, e.g.*, Transcript of Securities and Exchange Commission Securities Lending and Short Sale Roundtable (Sept. 29, 2009), *available at* http://www.sec.gov/news/openmeetings/2009/roundtable-transcript-092909.pdf (discussing, among other things, the lack of publicly available information to market participants about securities lending transactions).

We request comment on our proposed disclosure requirements for securities loans and cash collateral reinvestment.

- Should the Commission require funds to report information about securities on loan or reinvestment of cash collateral at the portfolio level, rather than at the individual security level? If so, what categories should be used to report such reinvestment? For example, would it be appropriate to use the same collateral categories for securities lending that we are proposing to be used for repurchase and reverse repurchase agreements?
- As discussed, Form N-PORT would require funds to indicate, for each investment, whether any portion of the investment represented non-cash collateral received to secure loaned securities. To what extent would this information be helpful to brokers, dealers, and investors? To what extent do funds receive collateral other than cash?
- Is there additional or alternative information regarding securities lending transactions that the Commission should require to be disclosed in reports on Form N-PORT?
- We believe that funds already track the characteristics of their securities lending and cash collateral reinvestment transactions that we would require to be reported on Form N-PORT. Is this belief correct? What would be the burden of reporting such information to the Commission?

h. Miscellaneous Securities

In Part D of Form N-PORT, as currently permitted by Regulation S-X, funds would have the option of identifying and reporting certain investments as "miscellaneous

securities."[149] Funds electing to separately report miscellaneous securities would use the same Item numbers and report the same information that would be reported for each investment if it were not a miscellaneous security.[150] Consistent with the disclosure regime established by Regulation S-X, all such responses regarding miscellaneous securities would be nonpublic and would be used for Commission use only, notwithstanding the fact that all other information reported for the third month of each fund's fiscal quarter on Form N-PORT would otherwise be publicly available.[151] Keeping information related to these investments nonpublic may serve to guard against the premature release of those securities positions and thus deter front-running and other predatory trading practices, while still allowing the Commission to have a complete record of the portfolio for monitoring, analysis, and checking for compliance with Regulation S-X.[152] The only information publicly reported for miscellaneous securities would be their aggregate value, which would be consistent with current practice as permitted by Regulation S-X.[153]

- Should funds continue to be allowed to use the category of miscellaneous securities, either on Form N-PORT or in publicly disclosed schedules of investments pursuant to instruction 1 to rule 12-12 and instruction 5 to rule 12-12C of Regulation S-X? To what extent do funds currently use "miscellaneous

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149 *See generally supra* note 49 and accompanying text.

150 *See* Form N-PORT, Part D.

151 *See* rule 12-12 of Regulation S-X.

152 *See, e.g.*, Quarterly Portfolio Holdings Adopting Release, *supra* note 19, at n.64 and accompanying text.

153 *See supra* notes 48-49 and accompanying text.

securities" as a line item in their schedule of investments, as opposed to disclosing all investments in securities of unaffiliated issuers? For what purposes? Should we continue to allow funds to exclude the full disclosures of such securities from funds' schedules of investments? Alternatively, should we consider lowering the threshold, such as to two percent or one percent of the total value of securities of unaffiliated issuers?

i. Explanatory Notes

In Part E of Form N-PORT, funds would have the option of providing explanatory notes relating to the filing, if any.[154] Any notes provided in public reports on Form N-PORT (*i.e.*, reports on Form N-PORT for the third month of the fund's fiscal quarter) would be publicly available, whereas notes provided in nonpublic filings of Form N-PORT would remain nonpublic.[155] Funds would also report, as applicable, the Item number(s) to which the notes are related.[156]

These notes, which would be optional, could be used to explain assumptions that funds made in responding to specific items in Form N-PORT. Funds could also provide context for anomalous responses or discuss issues that could not be adequately addressed elsewhere given the constraints of the form. Similar information in other contexts has

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[154] *See* Form N-PORT, Part E. *Cf.* Form PF, Item 4 (providing advisers to private funds the option of explaining any assumptions that they made in responding to any questions in the form).

[155] *See infra* Part II.A.4 of this release.

[156] *See* Form N-PORT, Part E.

assisted Commission staff in better understanding the information provided by funds, and we expect that explanatory notes provided on Form N-PORT would do the same.[157]

We request comment on our proposed disclosure requirements.

- Would the format outlined above for the explanatory notes allow funds to adequately discuss their responses on Form N-PORT? If not, how should the format be modified?
- Should explanatory notes in publicly available filings of Form N-PORT be nonpublic? If so, why?

j. Exhibits

In Part F of Form N-PORT, for reports filed for the end of the first and third quarters of the fund's fiscal year, a fund would also attach the fund's complete portfolio holdings as of the close of the period covered by the report. These portfolio holdings would be presented in accordance with the schedules set forth in §§210.12-12 to 12-14 of Regulation S-X.

As discussed further below in Part B, we are proposing to rescind Form N-Q because reports on Form N-PORT for the first and third fiscal quarters would make similar reports on Form N-Q unnecessarily duplicative. While we recognize that the quarterly, publicly disclosed reports on Form N-PORT will provide structured data to investors and other potential users, we recognize that the amount and structured format of the data contained in those reports are not primarily designed for individual investors. We believe that such investors might prefer that portfolio holdings schedules for the first

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[157] *See, e.g.*, Form N-MFP, Item 43 ("Explanatory notes. Disclose any other information that may be material to other disclosures related to the portfolio security.").

and third quarters continue to be presented using the form and content specified by Regulation S-X, which investors are accustomed to viewing in reports on Form N-Q and in shareholder reports. Therefore, we are proposing to require that, for reports on Form N-PORT for the first and third quarters of a fund's fiscal year, the fund would attach its complete portfolio holdings for that fiscal quarter, presented in accordance with the schedules set forth in §§210.12-12 to 12-14 of Regulation S-X.

Requiring funds to attach these portfolio holdings schedules to reports on Form N-PORT would provide the Commission, investors, and other potential users with access to funds' current and historical portfolio holdings for those funds' first and third fiscal quarters. Our proposal would also consolidate these disclosures in a central location, together with other fund portfolio holdings disclosures in shareholder reports and reports on Form N-CSR for funds' second and fourth fiscal quarters.

Under our proposal, and consistent with current practice, funds would have until 60 days after the end of their second and fourth fiscal quarters to transmit reports to shareholders containing portfolio holdings schedules prepared in accordance with Regulation S-X for that reporting period.[158] In contrast, under our proposal, funds would have 30 days after the end of their first and third fiscal quarters to file reports on Form N-PORT that would include portfolio holdings schedules prepared in accordance with Regulation S-X, although such reports would not be required to be made public until 60 days after the close of the reporting period. Although our proposal would require funds to prepare Regulation S-X compliant portfolio holdings schedules for their first and third

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[158] *See supra* note 27 (discussing current requirements to transmit reports to shareholders)*; infra* Part II.C (discussing our proposed amendments to Regulation S-X).

fiscal quarters 30 days more rapidly than they do currently, we believe that this would be reasonable given the significant overlap with information that would be required to be reported on Form N-PORT, and the fact that funds would be required to file reports on Form N-PORT within 30 days after the end of each month. In addition, the portfolio schedules attached to Form N-PORT would be neither audited nor certified, which we believe would significantly reduce the time required for preparation and validation. We request comment below on the timing of preparing this attachment.

As discussed below, we are proposing to allow funds to transmit reports to shareholders by posting online those reports, together with the funds' complete portfolio holdings for the first and third fiscal quarters presented in accordance with the schedules set forth in §§210.12-12 to 12-14 of Regulation S-X disclosures.[159] We recognize that there would be duplication between the portfolio schedules posted online for funds relying upon proposed rule 30e-3 and the portfolio schedules for funds attached on reports on Form N-PORT. However, we believe that requiring the Regulation S-X schedules to be filed as exhibits to Form N-PORT reports would serve the purpose of making the schedules permanently available on the Commission's Electronic Data Gathering, Analysis, and Retrieval System ("EDGAR") (even when such schedules are no longer required to be maintained online pursuant to proposed rule 30e-3).

We request comment on our proposed exhibits.

- Should funds be required to attach portfolio holdings schedules to reports on Form N-PORT? Is there an alternative that would be better for funds and

[159] *See supra* Part II.D.3.

investors in terms of informing investors' investment decisions with regards to current and historical portfolio holdings?

- As discussed above, the attached portfolio holdings schedules are intended for investors, but would not be required to be made publicly available to investors until 60 days after the close of the reporting period; however, as proposed, funds would be required to prepare and file this attachment within 30 days of the end of the reporting period. Should funds be allowed to file reports on Form N-PORT for the first and third fiscal quarters without Regulation S-X compliant schedules, but then be required to amend those reports on Form N-PORT to attach Regulation S-X compliant schedules no later than 60 days after the end of the reporting period?
- Should the portfolio schedules attached to Form N-PORT, which are similar to reports funds are providing currently on Form N-Q, be certified, as is currently required by Form N-Q?

k. General Request for Comments Regarding the Information on Form N-PORT

In addition to the requests for comment above, we request general comment on feasible alternatives to the information we would be requiring funds to report on Form N-PORT that would minimize the reporting burdens on funds while maintaining the anticipated benefits of the reporting and disclosure.[160] We also request comment on the

[160] *See* section 30(c)(2)(A) of the Investment Company Act [15 U.S.C. 80a-29(c)(2)(A)] (requiring Commission to consider and seek public comment on feasible alternatives to the required filing of information that minimize reporting burdens on funds).

utility of the information proposed to be included in reports to the Commission, investors, and the public in relation to the costs to funds of providing the reports.[161]

- Would Form N-PORT, as proposed, appropriately consider the usefulness of the information to the Commission, investors, and other potential users of the required information and the costs that would be associated with reporting this information? If not, which data points or items should be enhanced or scaled back? Are there any proposed items in Form N-PORT that should be revised to avoid duplication of reporting requirements in different Commission rules or forms? If so, please explain. On the other hand, are there any elements in Form N-PORT that the Commission should carry over to other Commission forms or rules?
- Are there specific items that the proposed form would require that are unnecessary or otherwise should not be required in the manner that we propose? Alternately, is there different or additional information that we have not identified that could be useful to us or investors in monitoring funds? For example, to the extent there are fund-specific, sector-specific, or industry-wide risks that would not be addressed by the information we are proposing to collect today, should we require additional or alternative information that would be relevant to an evaluation of the risk characteristics of the fund and its portfolio investments? Likewise, is there any investment- or entity-specific information that should be included in Form N-PORT to facilitate analysis of the information that would be

[161] *See* section 30(c)(2)(B) of the Investment Company Act (requiring Commission to consider and seek public comment on the utility of information, documents and reports to the Commission in relation to the associated costs).

reported? Should the manner in which information would be reported in Form N-PORT be revised to improve the clarity of disclosures or reduce reporting burdens?

- We believe that the information we are proposing to require would be readily available to funds as a matter of general business practice. Do commenters agree with this assumption? For example, do fund accounting or financial reporting systems, or those of a fund's custodian, generally contain the investment information that we are requesting in our proposal? What is the feasibility and burden of requiring funds to report information that is not contained in such systems? To the extent that any items that we have requested are not contained in fund accounting or financial reporting systems, are there other types of readily available data that would provide us with similar information?

3. Reporting of Information on Form N-PORT

As discussed above, the Commission proposes that funds would report information on Form N-PORT in XML, so that Commission staff, investors, and other potential users could create databases of fund portfolio information to be used for data analysis. Forms N-CSR and N-Q are not currently filed in a structured format, which results in reports that are comprehensible to a human reader, but are not suitable for automated processing, and generally require filers to reformat the required information from the way it is stored for normal business uses.[162] By contrast, requiring that reports on Form N-PORT be structured would allow the Commission and other potential users to

[162] Forms N-CSR and N-Q are required to be filed in HTMA or ASCII/SGML. *See* rule 301 of Regulation S-T; EDGAR Filer Manual (Volume II) version 27 (June 2014) at 5-1.

combine information from more than one report in an automated way to, for example, construct a data base of fund portfolio investments without additional formatting. Based upon our experiences with Forms N-MFP and PF, both of which require filers to report information in an XML format, we believe that requiring funds to report information on Form N-PORT in an XML format would provide the information that we seek in the most timely and cost-effective manner.[163] As discussed further below in the economic analysis, the XML format may also improve the quality of the information disclosed by imposing constraints on how the information would be provided, by providing a built-in validation framework of the data in the reports.[164]

- What would be the costs to funds of providing data conforming to a Form N-PORT XML Schema? How would costs be affected, if at all, by the size of the funds and fund complexes reporting this data? How would this affect smaller fund companies?
- Should the Commission allow or require the form to be provided in an XML Schema derived from existing XML based languages, such as Financial products Markup Language ("FpML") or XBRL? FpML is an industry standard created by ISDA for exchanging and reporting the terms and conditions of derivatives contracts. XBRL is another industry standard used by the Commission for many reporting forms.

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[163] We anticipate that the XML interactive data file would be compatible with a wide range of open source and proprietary information management software applications. Continued advances in interactive data software, search engines, and other web-based tools may further enhance the accessibility and usability of the data. *See, e.g.,* Money Market Fund Reform 2010 Release, *supra* note 13, at n.341.

[164] *See infra* Part IV.B.b.

- Is there another structured format that would allow investors and analysts to easily download and analyze the data?

The Commission is considering whether reports on Form N-PORT should be submitted through EDGAR or another electronic filing system, either maintained by the Commission or by a third-party contractor. If reports on Form N-PORT were required to be submitted through EDGAR, the electronic filing requirements of Regulation S-T would apply.[165]

We request comment on this aspect of our proposal.

- Are there specific other capabilities that the Commission should consider in developing or selecting an electronic filing system? For example, should the system have the capability to cross-check information reported to other electronic filing systems, such as the Investment Adviser Registration Depository (where registration forms for investment advisers are filed)? If so, which platforms and why?
- Is EDGAR the optimal vehicle for filing reports on Form N-PORT with the Commission? If not, what vehicle would be optimal for filing reports and why? Should the Commission allow the filing of documents in electronic media other than on EDGAR? If so, please make specific recommendations.
- Are there any particular concerns with filing such reports on EDGAR as opposed to a third party system or vice versa? If so, what are those concerns and what are potential remedies for such concerns? For example, as discussed further below,

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[165] *See generally* 17 CFR 232 (governing the electronic submission of documents filed with the Commission).

as proposed, reports on Form N-PORT for the first and second month of each fiscal quarter would not be made public. Accordingly, any filing would need to have confidentiality protections to keep the information on such Forms non-public. How should EDGAR or an alternative filing platform best address the confidentiality of this information?

- How important to investors and other interested parties is the fact that EDGAR currently serves as the filing system for fund filings with the Commission, and thus serves as a single repository where investors may examine historical filings by a given fund on related forms and generally compare reports made by other funds? To what extent, if at all, could investors become confused by the use of a new filing system for Form N-PORT and the use of EDGAR for other fund filings? How should any such investor confusion be mitigated by funds and the Commission?

Our proposal would require funds to report information on Form N-PORT no later than 30 days after the close of each month.[166] We request comment on this aspect of our proposal.

- Would 30 days be sufficient for funds to gather and report this information to the Commission? If not, what amount of time would be required and why? Conversely, could funds easily and reliably gather and report this information in less than 30 days, which would provide the Commission staff with more timely

[166] In contrast, one commenter to the FSOC Notice suggested that funds should report information to the Commission on a real-time basis. *See* Comment Letter of Occupy the SEC to the FSOC Notice (Mar. 25, 2015) (suggesting that asset managers should be required to provide real-time data, and that the Commission have the capability to monitor all funds' transactions on a real-time basis).

data?[167] If so, what amount of time would be appropriate? To what extent, if at all, should this determination be affected by the fact that funds would have 60 days to report their schedule of investments in their financial statements prepared pursuant to Regulation S-X?

As an alternative to monthly reports filed on Form N-PORT, should the Commission require quarterly reports that include portfolio information for each month of that quarter? How would the viability of this alternative be affected, if at all, by the technological challenges and inadvertent disclosure risks associated with combining in a single form nonpublic portfolio information relating to the first two months of each quarter with public portfolio information relating to the third month of that quarter? We note that this alternative would eliminate many of the benefits of monthly reporting, such as the ability of monthly data to address the staleness of quarterly data and to assist in monitoring funds by decreasing the delay between reports. However, this alternative would still provide twelve data points per year, which should improve the Commission staff's ability to perform analyses of portfolios, and would discourage various forms of portfolio manipulation, as discussed above. What, if any, other factors should the Commission consider in evaluating this alternative?

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[167] *See, e.g.*, Money Market Fund Reform 2014 Release, *supra* note 13 (requiring money market funds to report their holdings and other information to the Commission within five days after the end of each month).

4. Public Disclosure of Information Reported on Form N-PORT

We are proposing that funds report information on Form N-PORT on a monthly basis, no later than 30 days after the close of each month.[168] For reasons discussed below, and consistent with current disclosure practices, only information reported for the third month of each fund's fiscal quarter would be publicly available, and such information would not be made public until 60 days after the end of the third month of the fund's fiscal quarter.[169]

The quarterly portfolio reports that the Commission currently receives on Forms N-Q and N-CSR can quickly become stale due to the turnover of portfolio securities and fluctuations in the values of portfolio investments. Monthly portfolio reporting would decrease the delay between reports, which should prove useful to the Commission for fund monitoring, particularly in times of market stress. This would also triple the number of data points reported to the Commission in a given year, as well as ensure that the Commission has current information, which should in turn enhance the ability of Commission staff to perform analyses of funds in the course of monitoring for industry trends, or identifying issues for examination or inquiry.

As discussed above, the Commission generally believes that public availability of information, including the types of information that would be collected on Form N-PORT

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[168] Commission staff understands that certain funds currently report their investments to shareholders as of the last business day of the reporting period, while other funds report their investments as of the last calendar day of the reporting period. In recognition of this fact, and in an effort to avoid disruptions to current fund operations, the information reported on Form N-PORT may reflect the fund's investments as of the last business day, or last calendar day, of the month for which the report is filed.

[169] As discussed above, portfolio schedules are currently available to the public in reports that are mailed to shareholders or filed with the Commission either 60 or 70 days following the end of each reporting period. *See supra* note 27 and accompanying text.

that may not currently be reported or disclosed by funds, can benefit investors by assisting them in making more informed investment decisions. Although Form N-PORT is not primarily designed for disclosing information to individual investors, we believe that many investors, particularly institutional investors, as well as academic researchers, financial analysts, and economic research firms, could use the information reported on Form N-PORT to evaluate fund portfolios and assess the potential for returns and risks of a particular fund. Accordingly, whether directly or through third parties, we believe that the periodic public disclosure of the information on proposed Form N-PORT could benefit all fund investors.

The Commission, however, recognizes that more frequent portfolio disclosure could potentially harm fund shareholders by expanding the opportunities for professional traders to exploit this information by engaging in predatory trading practices, such as trading ahead of funds, often called "front-running."[170] Similarly, the Commission is sensitive to concerns that more frequent portfolio disclosure may facilitate the ability of outside investors to "free ride" on a mutual fund's investment research, by allowing those investors to reverse engineer and "copycat" the fund's investment strategies and obtain for free the benefits of fund research and investment strategies that are paid for by fund shareholders.[171] Both front-running and copycatting can reduce the returns of shareholders who invest in actively managed funds.[172]

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[170] *See, e.g.*, Quarterly Portfolio Holdings Adopting Release, *supra* note 19, at n.128 and accompanying text.

[171] *See, e.g., id.* at n.129 and accompanying text.

[172] *See The Potential Effects of More Frequent Portfolio Disclosure on Mutual Fund Performance*, 7 Investment Company Institute Perspective No. 3 (June 2001), *available at* http://www.ici.org/pdf/per07-03.pdf ("Potential Effects of More Frequent Disclosure").

We discussed these concerns when we first proposed and adopted Form N-MFP, and made the determination to make each monthly report on Form N-MFP public, with a 60 day delay.[173] In that release, however, we noted that, due to the short-term and restricted nature of money market fund securities, and because shares of money market funds are ordinarily purchased and redeemed at a stable share price, we believed opportunities for such activities were curtailed.[174] By contrast, funds other than money market funds can pursue a variety of investment strategies and invest in a variety of securities and other investments. Accordingly, we do not believe that the factors that mitigated our concerns about the potential for front running or free-riding in money market funds are as equally applicable to mutual funds.

Empirical studies indicate that the portfolio holdings information that investment companies disclose to the Commission and to shareholders contains information that can be used by other investors to front-run and copycat the positions of reporting funds.[175] Based on these studies, as well as experience and discussions with fund groups and market participants, the Commission is sensitive to the possibility that increasing the frequency of public portfolio disclosures to a monthly basis could further enable others to discern trading strategies of the funds, potentially subjecting registered investment companies to such predatory trading practices, resulting in competitive harms to the fund and its investors.

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[173] *See* Money Market Fund Reform 2010 Release, *supra* note 13 (adopting Form N-MFP with a 60 day delay for public disclosure). In 2014, the Commission eliminated the 60 day delay in the public disclosure of Form N-MFP. *See* Money Market Fund Reform 2014 Release, *supra* note 13.

[174] *See* Money Market Fund Reform 2010 Release, *supra* note 13, at text following n.573.

[175] *See infra* notes 663-667 and accompanying and following text.

We recognize that some free-riding and front running activity can occur even with quarterly disclosure, with the potential for investor harm. Conversely, however, investors previously petitioned for quarterly disclosures, noting numerous benefits that quarterly disclosure of portfolio schedules could provide, including allowing investors to better monitor the extent to which their funds' portfolios overlap, and hence enabling investors to make more informed asset allocation decisions, and providing investors with greater information about how a fund is complying with its stated investment objective.[176] The Commission cited many of these benefits when it adopted Form N-Q, and based on staff experience and outreach, believes that the current practice of quarterly portfolio disclosures provides benefits to investors, notwithstanding the opportunities for front-running and reverse engineering it might create.

Our proposal is intended to appropriately consider the benefits to the Commission, investors, and other potential users of public portfolio disclosures, including the reporting of such disclosures in a structured format and additional portfolio information that would be required on proposed Form N-PORT and the potential costs associated with making that information available to the public, which could be ultimately borne by investors. Accordingly, in an attempt to minimize these potential

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[176] *See* Quarterly Portfolio Holdings Adopting Release, *supra* note 19, at n.32 and accompanying text (discussing prior investor petitions for rulemaking). Investors that petitioned for quarterly disclosure also argued that increasing the frequency of portfolio disclosure would expose ''style drift'' (when the actual portfolio holdings of a fund deviate from its stated investment objective) and shed light on and prevent several potential forms of portfolio manipulation, such as ''window dressing'' (buying or selling portfolio securities shortly before the date as of which a fund's holdings are publicly disclosed, in order to convey an impression that the manager has been investing in companies that have had exceptional performance during the reporting period) and ''portfolio pumping'' (buying shares of stock the fund already owns on the last day of the reporting period, in order to drive up the price of the stocks and inflate the fund's performance results).

costs and harms, we propose to require public disclosure of fund reports on Form N-PORT once each quarter, rather than monthly, thereby maintaining the status quo regarding the frequency of public portfolio disclosure. As discussed above, funds are currently required to disclose their portfolio investments quarterly, via public filings with the Commission and semi-annual reports distributed to shareholders. Consequently, the Commission is not currently proposing to make public the information reported for the first and second months of each fund's fiscal quarter on Form N-PORT. Only information reported for the third month of each fund's fiscal quarter on Form N-PORT would be made publicly available, and such information would not be made public until 60 days after the end of the third month of the fund's fiscal quarter. We believe that maintaining the status quo with regard to the frequency and the time lag of portfolio reporting would allow the Commission, the fund industry, and the marketplace to assess the impact of the structured and more detailed data reported on Form N-PORT on the mix of information available to the public, and the extent to which these changes might affect the potential for predatory trading, before determining whether more frequent or more timely public disclosure would be, beneficial to investors in funds.

We are proposing to maintain the status quo of public disclosure of quarterly information based upon each fund's fiscal quarters, rather than calendar quarters, to ensure that public disclosure of information filed on Form N-PORT would be the same as the portfolio disclosures reported on a semi-annual fiscal year basis on Form N-CSR. We believe that such overlap would minimize the risks of predatory trading, because otherwise funds with fiscal year-ends that fall other than on a calendar quarter- or year-end would have their portfolios publicly available more frequently than funds with fiscal

year-ends that fall on a calendar quarter- or year-end, thus increasing the risks to those funds discussed above related to potential front-running or reverse engineering.

We request comment on the proposed frequency and delay of public disclosure of information reported on Form N-PORT.

- Should we require information on Form N-PORT reported for the first and second month of each fund's fiscal quarter be made public? Are the concerns about front-running or other possible harms discussed above warranted given the 60-day delay? Would a different combination of public disclosure frequency and delay better protect funds and their investors from the risks of predatory trading, while still providing timely and regular information to investors? To what extent would investors benefit from receiving monthly data as opposed to quarterly data?
- Are there alternatives we should consider to provide investors and other potential users with the information reported on Form N-PORT for the first and second months of each quarter? For example, would the potential harms discussed above be mitigated if reports on Form N-PORT for the first and second months were made public 60 days (or a shorter or longer time period) after the end of each quarter, or 60 days (or a shorter or longer time period) after the end of each fund's fiscal year, thereby increasing the time lag of such information? If monthly information were to be provided quarterly or annually, how would that affect the benefits of such information to investors and other potential users?
- Would Form N-PORT contain the type of information that, if disclosed on a monthly basis, could reveal information that a fund would consider proprietary or

confidential or that could place the fund at a competitive disadvantage? If so, please explain and provide examples, as applicable.

- Would restricting public disclosure of the information reported on Form N-PORT to information reported for the third month of each fund's fiscal quarter alleviate concerns about front-running or other possible harms that might be caused by making the monthly information reported on Form N-PORT public? Should we instead provide that all or a portion of the requested information on Form N-PORT be submitted in nonpublic reports to the Commission? If so, please identify the specific items that should remain nonpublic and explain why.
- Do commenters believe that our proposed 60-day delay in making the information public would be helpful in protecting against possible front running or free riding? Would a shorter delay (*e.g.*, 45 or 30 days) or a longer delay (*e.g.*, 70 days) be more appropriate? If so, why? For example, should we provide for a longer delay to prevent investors other than shareholders from trading along with the fund, to the possible detriment of the fund and its shareholders? Alternately, would a shorter delay, for example 30 days, better serve the needs of shareholders and potential fund investors while still appropriately protecting the interests of funds?
- Should information be reported on Form N-PORT as of the third month of each fund's fiscal year, as proposed, or should we instead require a uniform public reporting schedule for all funds to facilitate comparison of information reported on Form N-PORT (*e.g.*, March 31, June 30, September 30, and December 31)? To what extent would a uniform public disclosure schedule increase burdens to

funds, given that one of the purposes for selecting fiscal year-ends that vary from calendar year-ends is to spread out filing burdens throughout the year for fund complexes?

B. Rescission of Form N-Q and Amendments to Certification Requirements of Form N-CSR

1. Rescission of Form N-Q

Along with our proposal to adopt new Form N-PORT, we are proposing to rescind Form N-Q. Management companies other than SBICs are currently required to report their complete portfolio holdings as of the end of their first and third fiscal quarters on Form N-Q. Because the data reported on proposed Form N-PORT would include the portfolio holdings information contained in reports on Form N-Q, we believe that Form N-PORT, if adopted, would render reports on Form N-Q unnecessarily duplicative. Therefore, we believe it is appropriate to rescind Form N-Q rather than require funds to report similar information to the Commission on two separate forms.

However, as noted earlier, we believe that individual investors and other potential users might prefer that portfolio holdings schedules for the first and third quarters continue to be presented using the form and content specified by Regulation S-X, which investors are accustomed to viewing in reports on Form N-Q and in shareholder reports. Therefore, we are proposing to require that, for reports on Form N-PORT for the first and third quarters of a fund's fiscal year, the fund would attach its complete portfolio holdings for that fiscal quarter, presented in accordance with the schedules set forth in §§210.12-12 to 12-14 of Regulation S-X [17 CFR 210.12-12 – 12-14]. Also, as discussed below, proposed new rule 30e-3 would allow funds to satisfy requirements to

transmit reports to shareholders by posting on a website those shareholder reports and these same portfolio schedules for the funds' first and third quarters.[177]

2. Amendments to Certification Requirements of Form N-CSR

In connection with the Commission's implementation of the Sarbanes-Oxley Act of 2002, Form N-Q and Form N-CSR require the principal executive and financial officers of the fund to make quarterly certifications relating to (1) the accuracy of information reported to the Commission, and (2) disclosure controls and procedures and internal control over financial reporting.[178] Rescission of Form N-Q would eliminate certifications as to the accuracy of the portfolio schedules reported for the first and third fiscal quarters.

Under today's proposal, the certifications as to the accuracy of the portfolio schedules reported for the second and fourth fiscal quarters on Form N-CSR would remain. However, we are proposing to amend the form of certification in Form N-CSR to require each certifying officer to state that he or she has disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year, rather than the registrant's most recent fiscal quarter as currently required by the form.[179] Lengthening the look-back of this certification to six months, so that the certifications on Form N-CSR for the semi-annual and annual reports

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[177] *See infra* Part II.D.

[178] *See* Item 3 of Form N-Q (certification requirement); Form N-Q Adopting Release, *supra* note 152; Item 12 of Form N-CSR (certification requirement); Certification of Management Investment Company Shareholder Reports and Designation of Certified Shareholder Reports as Exchange Act Periodic Reporting Forms; Disclosure Required by Sections 406 and 407 of the Sarbanes-Oxley Act of 2002, Investment Company Act Release No. 24914 (Jan. 27, 2003) [68 FR 5348 (Feb. 3, 2003)] (adopting release for Form N-CSR).

[179] Proposed Item 11(b) of Form N–CSR; proposed paragraph 5(b) of certification exhibit of Item 11(a)(2) of Form N–CSR.

would cover the first and second fiscal quarters and third and fourth fiscal quarters, respectively, would fill the gap in certification coverage that would otherwise occur once Form N-Q is rescinded. To the extent that certifications improve the accuracy of the data reported, removing such certifications could have negative effects on the quality of the data reported. Likewise, if the reduced frequency of the certifications affects the process by which controls and procedures are assessed, requiring such certifications semi-annually rather than quarterly could reduce the effectiveness of the fund's disclosure controls and procedures and internal control over financial reporting are assessed. However, we expect such effects, if any, to be minimal because certifying officers would continue to certify portfolio holdings for the fund's second and fourth fiscal quarters and would further provide semi-annual certifications concerning disclosure controls and procedures and internal control over financial reporting that would cover the entire year.

3. Request for Comment

We request comments on the proposed rescission of Form N-Q and related rule and form amendments.

- Should we rescind Form N-Q, as we have proposed? Should we instead retain Form N-Q, and not require Regulation S-X compliant schedules to be attached to reports for the first and third fiscal quarters on Form N-PORT? Why or why not?
- Would the proposed amendments to the certification requirements in Form N-CSR be an appropriate substitute for the certification requirements in Form N-Q? Would the change from quarterly to semiannual certifications have an effect on the quality of funds' internal controls or on other costs associated with certifications? If so, are those changes appropriate?

C. Amendments to Regulation S-X

1. Overview

As part of our larger effort to modernize the manner in which funds report holdings information to investors, today we are proposing amendments to Regulation S-X, which prescribes the form and content of financial statements required in registration statements and shareholder reports.[180] As discussed above, many of the proposed amendments to Regulation S-X, particularly the amendments to the disclosures concerning derivative contracts, are similar to the proposed requirements concerning disclosures of derivatives that would be required on reports on proposed Form N-PORT. The proposed amendments to Regulation S-X would, among other things, require similar disclosures in a fund's financial statements in its shareholder reports and, as applicable, website disclosures in order to provide investors, particularly individual investors, with clear and consistent disclosures across funds concerning fund investments in derivatives in a human-readable format, as opposed to the structured format of proposed Form N-PORT.

As outlined below, we are proposing amendments to Articles 6 and 12 of Regulation S-X that would: (1) require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open

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[180] *See* rule 1-01, *et seq* of Regulation S-X [17 CFR 210.1-01, *et seq*]. While "funds" are defined in the preamble as registered investment companies other than face amount certificate companies and any separate series thereof—*i.e.*, management companies and UITs—we note that our proposed amendments to Regulation S-X apply to both registered investment companies and BDCs. *See infra* notes 264 and 265. Therefore, throughout this section, when discussing fund reporting requirements in the context of our proposed amendments to Regulation S-X, we are also including changes to the reporting requirements for BDCs.

swap contracts, [181] and additional disclosures regarding fund holdings of written and purchased option contracts; (2) update the disclosures for other investments, as well as reorganize the order in which some investments are presented; and (3) amend the rules regarding the general form and content of fund financial statements. Our amendments would also require prominent placement of disclosures regarding investments in derivatives in a fund's financial statements, rather than allowing such schedules to be placed in the notes to the financial statements. Finally, our amendments would require a new disclosure in the notes to the financial statements relating to a fund's securities lending activities.

As discussed above, the proposed rules will renumber the current schedules in Article 12 of Regulation S-X and break out the disclosure of derivatives currently reported on Schedule 12-13 into separate schedules. These changes are summarized in Figure 1, below.

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[181] We recognize that under the federal securities laws, certain derivatives fall under the definition of securities notwithstanding, for purposes of our proposals to Regulation S-X, we expect funds to adhere to the requirements of the disclosure schedules for the relevant derivative investment, regardless of how it would be defined under the federal securities laws. *See, e.g.*, proposed rule 12-13C of Regulation S-X (Open swap contracts).

PROPOSED CHANGES TO ARTICLE 12 OF REGULATION S-X

CURRENT RULES	PROPOSED RULES
12-12 (Investments in securities of unaffiliated issuers)	12-12 (Investments in securities of unaffiliated issuers)
12-12A (Investments—securities sold short)	12-12A (Investments—securities sold short)
12-12B (Open option contracts written)	12-13 (Open option contracts written)*
12-12C (Summary schedule of investments in securities of unaffiliated issuers)	12-12B (Summary schedule of investments in securities of unaffiliated issuers)*
12-13 (Investments other than securities)	12-13A (Open futures contracts)* 12-13B (Open forward foreign currency contracts)* 12-13C (Open swap contracts)* 12-13D (Investments other than those presented in §§210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B, and 12-13C)*
12-14 (Investments in and advances to affiliates)	12-14 (Investments in and advances to affiliates)

* Denotes new or renumbered schedules.

Figure 1

We believe the proposed amendments will assist comparability among funds, and increase transparency for investors regarding a fund's use of derivatives and the liquidity of certain investments. We have endeavored to mitigate burdens on the industry by proposing to require similar disclosures both on Form N-PORT and in a fund's financial statements.[182] As a further consideration, we believe that the amendments we are proposing today are generally consistent with how many funds are currently reporting investments (including derivatives), and other information according to current industry practices.

[182] *See* discussion *supra* Part II.A.2.g.iv.

2. Enhanced Derivatives Disclosures

In 2011, as part of a wider effort to review the use of derivatives by management investment companies, we issued a concept release and request for comment on a range of issues.[183] We received comment letters from a variety of stakeholders, including investors, fund groups, and third-party users of the information, who commented on a number of issues. Several commenters noted that holdings of derivative investments are not currently reported by funds in a consistent manner.[184] Commenters also suggested that more disclosure on underlying risks was necessary, including more information on counterparty exposure and reporting relating to the notional amount of certain derivatives.[185] Another commenter specifically requested that we revise Regulation S-X

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[183] Derivatives Concept Release, *supra* note 7.

[184] Comments submitted in response to the Derivatives Concept Release are available at http://www.sec.gov/comments/s7-33-11/s73311.shtml. *See* Morningstar Derivatives Concept Release Comment Letter, *supra* note 58 ("This is because fund companies are not reporting derivative holdings in a consistent manner and are not reporting derivative holdings in a manner that identifies the underlying risk exposure."); Comment Letter of Rydex|SGI (Nov. 7, 2011) ("Rydex|SGI Derivatives Concept Release Comment Letter") ("However, the quality and extent of such derivatives disclosure still varies greatly from registrant to registrant."). Commenters to the FSOC Notice made similar observations. *See, e.g.*, Americans for Financial Reform FSOC Notice Comment Letter, *supra* note 116 ("While full position-level data on securities portfolios is available periodically for registered funds, current derivatives disclosure requirements appear very poor."); Systematic Risk Council FSOC Notice Comment Letter, *supra* note 116 ("While most managed funds do not employ leverage to the same degree that banks do, we encourage regulators to consider carefully whether there are potential improvements to the current data collection regime [] that would allow regulators to track the presence and concentrations of leverage in the asset management industry, particularly as it arises from the use of derivatives . . . .").

[185] *See* Morningstar Derivatives Concept Release Comment Letter, *supra* note 58 ("Notional exposure ... is a better measure of risk"); Comment Letter of Oppenheimer Funds to Derivatives Concept Release (Nov. 7, 2011) ("Instead, counterparty risks incurred through the investments in derivatives ... should be considered in a new SEC rulemaking that is primarily disclosure based."); Rydex|SGI Derivatives Concept Release Comment Letter, *supra* note 184 (recommending that funds that invest in derivatives should disclose notional exposure for non-exchanged traded derivatives and a fund's exposure to counterparties). Commenters to the FSOC Notice made similar observations relating to counterparty disclosures. *See, e.g.*, Americans for Financial Reform FSOC Notice Comment Letter, *supra*

in order to keep "financial reporting current with developments in the financial markets."[186]

While the rules under Regulation S-X establish general requirements for portfolio holdings disclosures in fund financial statements, they do not prescribe standardized information to be included for derivative instruments other than options. Currently, rule 12-13 of Regulation S-X (Investments other than securities) requires limited information on the fund's investments other than securities – that is, the investments not disclosed under rules 12-12, 12-12A, 12-12B, and 12-14. [187] Thus, under Regulation S-X, a fund's disclosures of open futures contracts, open forward foreign currency contracts, and open swap contracts are generally reported in accordance with rule 12-13.

To address issues of inconsistent disclosures and lack of transparency as to derivative instruments, we are proposing to amend Regulation S-X by proposing new schedules for open futures contracts, open forward foreign currency contracts, and open swap contracts. We are also proposing to modify the current disclosure requirements for purchased and written option contracts. Finally, we are proposing to include certain instructions regarding the presentation of derivatives contracts that are generally consistent with instructions that are currently included, or that we are proposing to add, in

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note 116 ("Counterparty data is also often not available."); Systematic Risk Council Comment Letter, *supra* note 116 (discussing the need to have information about investment vehicles that hold bank liabilities).

186 Comment Letter of Stephen A. Keen to Derivatives Concept Release (Nov. 8, 2011).

187 The schedule to rule 12-13 requires disclosure of: (1) description; (2) balance held at close of period – quantity; and (3) value of each item at close of period. *See* rule 12-13 of Regulation S-X.

either rule 12-12 (Investments in securities of unaffiliated issuers) or rule 12-13 (Investments other than securities).[188]

a. Open Option Contracts Written — Rule 12-13 (Current Rule 12-12B) and Options Purchased

Our proposed rule would modify the current disclosure of written option contracts.[189] First, we are adding new columns to the schedule for written option contracts that would require a description of the contract (replacing the current column for name of the issuer), the counterparty to the transaction,[190] and the contract's notional amount.[191] Thus, under the new rule 12-13, for each open written options contract, funds would be required to disclose: (1) description; (2) counterparty; (3) number of contracts; (4) notional amount; (5) exercise price; (6) expiration date; and (7) value.[192] Second, we are proposing to add an instruction to current rule 12-12, which is the schedule on which purchased options are required to be disclosed, that would require funds to provide all information required by proposed rule 12-13 for written option contracts.[193]

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[188] *See, e.g.*, proposed rule 12-12, n.2 of Regulation S-X (instructions for categorizing investments); n.10 (disclosure of illiquid securities); n.12 (disclosure of costs basis for Federal income tax purposes); *see also* rule 12-13, n.7 of Regulation S-X (current requirement for disclosure of costs basis for Federal income tax purposes).

[189] Under current rule 12-12B, funds are required to report, for open option contracts, the name of the issuer, number of contracts, exercise price, expiration date, and value. *See* rule 12-12B of Regulation S-X [17 CFR 210.12-12B].

[190] *See supra* note 116. This information should assist investors in identifying and monitoring the counterparty risks associated with a fund's investments in over-the-counter derivatives.

[191] While rule 12-13 is specific to open option contracts written, the same disclosures also apply for purchased options as required by proposed instruction 3 to rule 12-12. *See also* proposed rule 12-12B, n.5 of Regulation S-X.

[192] *See* proposed rule 12-13 of Regulation S-X.

[193] *See* proposed rule 12-12, n.3 of Regulation S-X.

We are also proposing for options where the underlying investment would otherwise be presented in accordance with another provision of rule 12-12 or proposed rules 12-13 through 12-13D that the presentation of that investment must include a description, as required by those provisions.[194] Thus, if another investment contains some sort of optionality (*e.g.*, put or call features), the investment's disclosure must include both a description of the optionality (as required by proposed rule 12-13), and a description of the underlying investments, as required by the applicable provisions of proposed rules 12-12, 12-12A, and 12-13 through 12-13D. For example, reporting for a swaption would include the disclosures required under both the swaps rule (proposed rule 12-13C) and the options rule (proposed rule 12-13).

As required in proposed Form N-PORT,[195] in the case of an option contract with an underlying investment that is an index or basket of investments whose components are publicly available on a website as of the fund's balance sheet date, [196] or if the notional amount of the holding does not exceed one percent of the fund's NAV as of the close of the period, we are proposing that the fund provide information sufficient to identify the underlying investment, such as a description.[197] If the underlying investment is an index

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194 *See* proposed rules 12-12, n.3; 12-12B, n.5; and 12-13, n.3 of Regulation S-X.

195 *See* Item C.11.c.iii of proposed Form N-PORT.

196 Under the proposal, the components would be required to be publicly available on a website as of the fund's balance sheet date at the time of transmission to stockholders for any report required to be transmitted to stockholders under rule 30e-1. The components would be required to remain publicly available on a website as of the fund's balance sheet date until 70 days after the fund's next fiscal year-end. For example, components of an index underlying an option contract for a fund's 12/31/14 annual report must be made publicly available on a website as of 12/31/14 by the time that the 12/31/14 annual report is transmitted to stockholders. The components must remain publicly available until 3/10/16.

197 *See* proposed rule 12-13, n.3 of Regulation S-X. *See supra* note 120 and accompanying text (discussing the rationale for similar proposed requirements in Form N-PORT).

whose components are not publicly available on a website as of the fund's balance sheet date, or is based upon a custom basket of investments, and the notional amount of the option contract exceeds one percent of the fund's NAV as of the close of the period, the fund would list separately each of the investments comprising the index or basket of investments.[198] We believe that disclosure of the underlying investments of an option contract is an important element to assist investors in understanding and evaluating the full risks of the investment. We are also proposing to include a similar instruction for swap contracts.[199] The disclosures in proposed instruction 3 would provide investors with more transparency into both the terms of the underlying investment and the terms of the option.

We are also proposing several instructions to rule 12-13 and the other rules we are proposing concerning derivatives holdings (*e.g.*, open futures contracts, open swap contracts) in order to maintain consistency with the disclosures required by current rule 12-13. Current rule 12-13 contains an instruction requiring identification of "each investment not readily marketable."[200] We are proposing to modify this requirement in proposed rule 12-13 and the other rules concerning derivatives holdings in order to increase transparency into the marketability of, and observability of valuation inputs for, a fund's investments by requiring separate identification of investments that are restricted securities, as well as those investments that were fair valued using significant

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198 *See id*.

199 *See* proposed rule 12-13C, n.3 of Regulation S-X.

200 *See* rule 12-13, n.4 of Regulation S-X ("The term 'investment not readily marketable' shall include investments for which there is no independent publicly quoted market and investments which cannot be sold because of restrictions or conditions applicable to the investment or the company.").

unobservable inputs. Thus, we are proposing to require funds to indicate if an investment cannot be sold because of restrictions or conditions applicable to the investment.[201] We are also proposing to require funds to indicate if a security's fair value was determined using significant unobservable inputs.[202]

Current rule 12-13 likewise contains an instruction to include tax basis disclosures for investments other than securities.[203] We are extending this requirement to proposed rule 12-13, as well as the other rules concerning derivatives holdings.[204] We believe that this type of tax basis information is important to investors in investment companies, which are generally pass-through entities pursuant to Subchapter M of the Internal Revenue Code.[205]

In order to provide greater transparency to investors into which investments are deemed illiquid, we are also proposing to require funds to identify illiquid investments.[206]

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[201] *See* proposed rule 12-13, n.6 of Regulation S-X; *see also* proposed rules 12-13A, n.4; 12-13B, n.2; 12-13C, n.5; and 12-13D, n.6 of Regulation S-X.

[202] *See* proposed rule 12-13, n.7 of Regulation S-X; *see also* proposed rules 12-13A, n.5; 12-13B, n.3; 12-13C, n.6; and 12-13D, n.7 of Regulation S-X. These instructions would require funds to identify each investment categorized in Level 3 of the fair value hierarchy in accordance with ASC Topic 820. *See* ASC 820-10-20 (defining "level 3 inputs" as "unobservable inputs for the asset or liability"); *see also* ASC 820-10-35-37A ("In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is *significant* to the entire measurement.") (emphasis added); *see also* discussion *supra* note 101.

[203] *See* rule 12-13, n.7 of Regulation S-X.

[204] *See* proposed rule 12-13, n.10 of Regulation S-X; *see also* proposed rules 12-13A, n.8; 12-13B, n.6; 12-13C, n.9; and 12-13D, n.11 of Regulation S-X.

[205] *See* 26 U.S.C. 851, *et seq.*

[206] *See* proposed rule 12-13, n.8 of Regulation S-X; s*ee also* proposed rules 12-13A, n.6; 12-13B, n.4; 12-13C, n.7; and 12-13D, n.8 of Regulation S-X. *See generally* 1992 Release, *supra* note 100. As previously stated, the staff is reviewing possible recommendations to the Commission for rulemaking to update liquidity standards for mutual funds and ETFs, which

Liquidity is an important consideration for a fund's investors in understanding the risk exposure of a fund. For example, in times of market stress, illiquid investments may not be readily sold at their approximate value. Indicating which investments are illiquid would allow an investor to understand which holdings in a fund are likely to be sold at a discount if a portion of the fund's investments must be sold to meet cash needs, such as redemptions or distributions.

Proposed rule 12-13 would also include other new instructions.[207]

b. Open Futures Contracts — New Rule 12-13A

We are proposing new rule 12-13A, which would require standardized reporting of open futures contracts.[208] For open futures contracts, funds are currently required to report under rule 12-13 a description of the futures contract (including its expiration date), the number of contracts held (under the balance held—quantity column), and any unrealized appreciation and depreciation (under the value column).[209] In order to allow investors to better understand the economics of a fund's investment in futures contracts, our proposal would also require funds to report notional amount and value.[210] Therefore, under the proposal, funds with open futures contracts would report: (1) description; (2) number of contracts; (3) expiration date; (4) notional amount; (5) value; and (6)

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may result in changes to the Commission's current guidance on this issue. *See supra* note 100.

[207] Instruction 2 would add "description" and "counterparty" to the organizational categories of options contracts that must be listed separately. *See* proposed rule 12-13, n.2 of Regulation S-X. Instruction 4 would clarify that the fund need not include counterparty information for exchange-traded options. *See* proposed rule 12-13, n.4 of Regulation S-X.

[208] *See* proposed rule 12-13A of Regulation S-X.

[209] *See* rule 12-13 of Regulation S-X.

[210] *See* proposed rule 12-13A, columns D and E of Regulation S-X.

unrealized appreciation and depreciation.[211] In addition, instruction 7 would include the new requirement that funds should reconcile the total of Column F (unrealized appreciation/depreciation) to the total variation margin receivable or payable on the related balance sheet.[212] We believe that proposed instruction 7 would improve transparency by linking the information in the schedule of open futures contracts with the related balance sheet.

As discussed above, our proposal also contains certain new instructions for rule 12-13A that are generally the same across all of the schedules for derivatives contracts.[213] Based on staff review of disclosures of open futures contracts of funds, we believe that these proposed disclosures are generally consistent with current industry practice.[214]

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[211] *See* proposed rule 12-13A of Regulation S-X.

[212] *See* proposed rule 12-13A, n.7 of Regulation S-X.

[213] Instruction 1 would require funds to organize long purchases of futures contracts and futures contracts sold short separately. *See* proposed rule 12-13A, n.1 of Regulation S-X. Instruction 2 would require funds to list separately futures contracts where the descriptions or expiration dates differ. *See* proposed rule 12-13A, n.2 of Regulation S-X. Instruction 3 would clarify that the description should include the name of the reference asset or index. *See* proposed rule 12-13A, n.3 of Regulation S-X. Instruction 4 would require the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* proposed rule 12-13A, n.4 of Regulation S-X. Instruction 5 would require the fund to indicate each investment whose fair value was determined using significant unobservable inputs. *See* proposed rule 12-13A, n.5 of Regulation S-X. Instruction 6 would require the fund to identify each illiquid investment. *See* proposed rule 12-13A, n.6 of Regulation S-X. Instruction 8 would extend current rule 12-13's tax basis disclosure to disclosures of open futures contracts. *See* proposed rule 12-13A, n.8 of Regulation S-X.

[214] We understand that many funds disclose either value or notional amount for open futures contracts, but may not disclose both. Our proposal would require disclosure of both value and notional amount.

c. Open Forward Foreign Currency Contracts — New Rule 12-13B

We are also proposing new rule 12-13B, which would require standardized disclosures for open forward foreign currency contracts.[215] Currently, under rule 12-13, funds are required to report a description of the contract (including a description of what is to be purchased and sold under the contract and the settlement date), the amount to be purchased and sold on settlement date (under the balance held—quantity column), and any unrealized appreciation or depreciation (under the value column).[216] In order to allow investors to better understand counterparty risk for forward foreign currency contracts, our proposal would additionally require funds to disclose the counterparty to each transaction.[217] As proposed, funds holding open forward foreign currency contracts would therefore report the: (1) amount and description of currency to be purchased; (2) amount and description of currency to be sold; (3) counterparty; (4) settlement date; and (5) unrealized appreciation/depreciation.[218] Based on staff review of disclosures of open forward foreign currency contracts of funds, we believe that these proposed disclosures are generally consistent with current industry practice. Our proposal would also include certain new instructions to the schedule that are similar to the other derivatives disclosure requirements we are proposing today.[219]

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[215] *See* proposed rule 12-13B of Regulation S-X.

[216] *See* rule 12-13 of Regulation S-X.

[217] *See* proposed rule 12-13B, column C of Regulation S-X.

[218] *See* proposed rule 12-13B of Regulation S-X.

[219] Instruction 1 would require the fund to separately organize forward foreign currency contracts where the description of currency purchased, currency sold, counterparties, or settlement dates differ. *See* proposed rule 12-13B n.1 of Regulation S-X. Instruction 2 would require the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* proposed rule 12-13B n.2 of

d. Open Swap Contracts — New Rule 12-13C

We are also proposing new rule 12-13C, which would require standardized reporting of fund positions in open swap contracts.[220] Under rule 12-13, funds currently report description (including a description of what is to be paid and received by the fund and the contract's maturity date), notional amount (under balance held—quantity column), and any unrealized appreciation or depreciation (under the value column).[221] Our proposal would additionally require funds to report the counterparty to each transaction (except for exchange-traded swaps), the contract's value, and any upfront payments or receipts.[222] This additional information would allow investors to both better understand the economics of the transaction, as well as its associated risks.[223] Thus, as proposed, funds would report for each swap the: (1) description and terms of payments to be received from another party; (2) description and terms of payments to be paid to another party; (3) counterparty; (4) maturity date; (5) notional amount; (6) value; (7)

Regulation S-X. Instruction 3 would require the fund to indicate each investment whose fair value was determined using significant unobservable inputs. *See* proposed rule 12-13B n.3 of Regulation S-X. Instruction 4 would require the fund to identify each illiquid investment. *See* proposed rule 12-13B n.4 of Regulation S-X. Instruction 5 would clarify that Column E (unrealized appreciation/depreciation) should be totaled and agree with the total of correlative amounts shown on the related balance sheet. *See* proposed rule 12-13B n.5 of Regulation S-X. Instruction 6 would extend current rule 12-13's tax basis disclosure to disclosures of open forward foreign currency contracts. *See* proposed rule 12-13B n.6 of Regulation S-X.

220 *See* proposed rule 12-13C of Regulation S-X.

221 *See* rule 12-13 of Regulation S-X.

222 *See* proposed rule 12-13C, columns C, F, and G of Regulation S-X.

223 For example, upfront payments disclose whether cash was paid or received when entering into a swap contract, allowing investors to better understand the initial cost of the investment, if any.

upfront payments/receipts; and (8) unrealized appreciation/depreciation.[224] We are proposing these categories of information in an effort to increase transparency of swap contracts, while maintaining enough flexibility for the variety of swap products that currently exist and future products that might come to market.[225]

While instruction 3 of proposed rule 12-13C provides specific examples for the more common types of swap contracts (*e.g.*, credit default swaps, interest rate swaps, and total return swaps), we recognize that other types of swaps exist (*e.g.*, currency swaps, commodity swaps, variance swaps, and subordinated risk swaps).[226] For example, a cross-currency swap has two notional amounts, one for the currency to be received and one for the currency to be paid. For a cross-currency swap, funds would report for purposes of Column A of proposed rule 12-13C, a description of the interest rate to be received and the notional amount that the calculation of interest to be received is based upon. Column B of proposed rule 12-13C would include a description of the interest rate to be paid and the notional amount that the calculation of interest to be paid is based upon. Column E would include both notional amounts and the currency in which each is denominated, or the same information could be presented in two separate columns.

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[224] *See* proposed rule 12-13C of Regulation S-X. The description and terms of payments to be paid and received (and other information) to and from another party should reflect the investment owned by the fund and allow an investor to understand the full nature of the transaction.

[225] *See id*. at n.1 (requiring the fund to list each major category of swaps by descriptive title); n.2 (requiring the fund to list separately each swap where description, counterparty, or maturity dates differ within each major category).

[226] *See* proposed rule 12-13C, n.3 of Regulation S-X.

As required in our proposed disclosures for open option contracts[227] and in proposed Form N-PORT,[228] in the case of a swap with a referenced asset that is an index whose components are publicly available on a website as of the fund's balance sheet date, or if the notional amount of the holding does not exceed one percent of the fund's NAV as of the close of the period, we are proposing that the fund provide information sufficient to identify the referenced asset, such as a description.[229] If the referenced asset is an index whose components are not publicly available on a website as of the fund's balance sheet date, or is based upon a custom basket of investments, and the notional amount of the holding exceeds one percent of the fund's NAV as of the close of the period, the fund would list separately each of the investments comprising the referenced assets.[230] As with underlying investments for option contracts, we believe that disclosure of the underlying referenced assets of a swap would assist investors in better understanding and evaluating the full risks of investments in swaps.

For swaps which pay or receive financing payments, funds would disclose variable financing rates in a manner similar to disclosure of variable interest rates on securities in accordance with instruction 4 to proposed rule 12-12.[231] Our proposal would also include other instructions to this rule that are similar across all of our proposed rules for derivatives contracts.[232]

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[227] *See* proposed rule 12-13, n.3 of Regulation S-X.

[228] *See* Item C.11.f.i of proposed Form N-PORT.

[229] *See* proposed rule 12-13C, n.3 of Regulation S-X.

[230] *See id*.

[231] *See* proposed rule 12-13C, n.3; and 12-12, n.4 of Regulation S-X.

[232] Instruction 4 would clarify that the fund need not list counterparty for exchange traded swaps. *See* proposed rule 12-13C n.4 of Regulation S-X. Instruction 5 would require the fund to

e. Other Investments — Rule 12-13D (Current Rule 12-13)

We are also proposing to amend current rule 12-13 and, for organization and consistency, renumber it as proposed rule 12-13D. Proposed rule 12-13D is intended to continue, as is currently required by rule 12-13, to be the schedule by which funds report investments not otherwise required to be reported pursuant to Article 12.[233] As proposed, rule 12-13D would require reporting of: (1) description; (2) balance held at close of period-quantity; and (3) value of each item at close of period.[234] We expect that funds would report, among other holdings, investments in physical holdings, such as real estate or commodities, pursuant to proposed rule 12-13D. As discussed above, our proposal would also modify current rule 12-13's requirement that funds disclose "each investment not readily marketable"[235] in favor of disclosures concerning whether an investment is restricted and if an investment's fair value was determined using significant unobservable inputs.[236] Our proposal would also include certain new instructions to the schedule that are generally the same across all the schedules for derivatives contracts.[237]

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indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* proposed rule 12-13C n.5 of Regulation S-X. Instruction 6 would require the fund to indicate each investment whose fair value was determined using significant unobservable inputs. *See* proposed rule 12-13C n.6 of Regulation S-X. Instruction 7 would require funds to identify each illiquid investment. *See* proposed rule 12-13C n.7 of Regulation S-X. Instruction 8 would require that columns F (value), G (upfront payments/receipts), and H (unrealized appreciation/depreciation) be totaled and agree with the totals of their respective amounts shown on the related balance sheet. *See* proposed rule 12-13C n.8 of Regulation S-X. Instruction 9 would extend current rule 12-13's tax basis disclosure to disclosures of swap contracts. *See* proposed rule 12-13C n.9 of Regulation S-X.

233 *See* proposed rule 12-13D of Regulation S-X.

234 *Id.*

235 *See* rule 12-13, n.4 of Regulation S-X.

236 *See* proposed rule 12-13D, n.6 of Regulation S-X (requiring the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the

We request comment on our proposed amendments to rules 12-13 through 12-13D of Regulation S-X:

- Many of our proposed portfolio holdings disclosure requirements in Article 12 conform with similar requirements on proposed Form N-PORT. Are our proposed amendments to Article 12 appropriate for fund financial statements? Is there information that is currently proposed in Form N-PORT, but not in Article 12, that would benefit investors? For example, to the extent that proposed Form N-PORT instructs filers to report the country code that corresponds to the country of investment or issuer based on the concentrations of the risk and economic exposure of the investments, or, if different, the country where the issuer is organized, should those same instructions be integrated into Regulation S-X to standardize how funds report that information in their financial statements and in Form N-PORT?[238]
- Are there other categories of investments not specifically covered in Article 12 that should be specifically addressed in a new rule or directly addressed in rule 12-13D?

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investment); n.7 (requiring the fund to indicate each issue of securities whose fair value was determined using significant unobservable inputs).

[237] Instruction 1 would require the fund to organize each investment separately where any portion of the description differs. *See* proposed rule 12-13D n.1 of Regulation S-X. Instruction 2 would require the fund to categorize the schedule by the type of investment, and related industry, country, or geographic region, as applicable. *See* proposed rule 12-13D n.2 of Regulation S-X. Instruction 3 would require that the description of the asset include information sufficient for a user to understand the nature and terms of the investment. *See* proposed rule 12-13D n.3 of Regulation S-X. Instruction 8 would require the fund to identify each illiquid investment. *See* proposed rule 12-13D n.8 of Regulation S-X.

[238] *See supra* note 104 and accompanying and following text (discussing how funds would report country codes for portfolio investments on Form N-PORT).

- To what extent are proposed rules 12-13 through 12-13D consistent with industry practices? How are our proposed amendments different? Are there other industry practices that we should include in our proposal with respect to the disclosure of derivative investments?
- The schedules to rules 12-13 through 12-13D use the term "description" to require funds to disclose the information sufficient for a user of financial information to identify the investment. Should the instructions to any of those rules be enhanced or modified to clarify what is meant by the term "description?" If so, how should these be enhanced or modified?
- The schedules to rules 12-13 (Open option contracts written), 12-13B (Open forward foreign currency contracts), 12-13C (Open swap contracts), and 12-13D (Other investments) would require disclosure of the counterparty to the transaction for non-exchange traded instruments. Should we, as proposed, require disclosure of the counterparty to certain transactions? Should the exchange or clearing member be disclosed for exchange-traded derivatives? Are there any additional counterparty or exchange risks that should be disclosed? If so, why? Are there any confidentiality or other concerns with requiring the disclosure of counterparties?
- We request comment on our proposed amendments to rule 12-13 (Open option contracts written). Should we require different or additional information about these contracts? Should any of the proposed information requirements be excluded? Is it appropriate to require disclosure of "notional amount" for option contracts? Is this metric useful to investors? Should we require the disclosures of

open option contracts written to be grouped or subtotaled? For example, should we require over-the-counter option contracts to be grouped by counterparty?

- As proposed, rule 12-13 would require disclosure of each option contract with an underlying investment that is an index or basket of investments whose components are not publicly available on a website and the notional amount of the holding exceeds one percent of the NAV of the fund. Are there better alternatives to disclose the underlying investments for an options contract if it consists of a custom basket of securities? If so, what alternatives and why? To the extent such indices are proprietary or subject to licensing agreements, what would be the effect of this requirement? For example, would funds incur costs for amending licensing agreements? Would index providers be unwilling to amend existing licensing agreements? If so, how would this impact funds that make such investments and the marketplace generally? Are there other concerns about disclosing the components of proprietary indices? Should we alter this requirement, and if so how? Is our exceeding one percent of the NAV disclosure threshold appropriate? Should there be a different disclosure threshold applied to an option contract's underlying investments? If so, what threshold and why? For example, should there be a disclosure threshold applied to individual holdings (*e.g.*, if the notional amount of a single underlying investment in a custom basket is less than a certain percentage of a fund's net assets)? Should we use a different percentage for the disclosure threshold, such as exceeding five percent of the NAV? Alternatively, would summary disclosure be adequate to inform investors, similar to instruction 3 of rule 12-12C, which requires disclosure of the 50 largest

issues and any other issue the value of which exceeded one percent of net asset value of the fund as of the close of the period? If so, how should such a disclosure be handled? If the reference asset is a modified version of an index whose components are publicly available on a website as of the fund's balance sheet date, for example a version that is customized to exclude certain issuers that the fund is restricted from owning, would requiring a narrative of those modifications be preferable to funds and investors rather than requiring each holding of the modified index to be listed?

- We request comment on proposed rule 12-13A (Open futures contracts). Should we require different or additional information about these contracts? Should any of the proposed information requirements be excluded? Our proposed rule would require disclosure of notional amount and value on open futures contracts. Should we require disclosure of notional amount for futures contracts? Should we require disclosure of value for futures contracts? Should we require the disclosures of open futures contracts to be grouped or subtotaled? If so, how? For example, should we require open futures contracts to be organized by country of issuance?
- We request comment on proposed rule 12-13B (Open forward foreign currency contracts). Should we require different or additional information about these contracts? Should any of the proposed information requirements be excluded? Rule 12-13B, as proposed, is limited to forward foreign currency contracts. Are there other types of forwards that should be addressed in this section that would not otherwise be presented as other derivative investments, such as swaps?

Should we require the disclosures of open forward foreign currency contracts to be grouped or subtotaled? If so, how? For example, should we require open forward foreign currency contracts to be organized by currency or type of transaction (*e.g.*, purchased or sold U.S. dollars)?

- We request comment on proposed rule 12-13C (Open swap contracts). Should we require different or additional information about these contracts? Should any of the proposed information requirements be excluded? Instruction 1 to proposed rule 12-13C requires the schedule to be organized by descriptive title (*e.g.*, credit default swaps, interest rate swaps). Should we require additional subgrouping of the schedules beyond what is already required? For example, should we require over-the-counter swaps to be grouped by counterparty?
- Instruction 3 of proposed rule 12-13C contains examples of information that could be included for credit default swaps, interest rate swaps, and total return swaps. Is the example contained in proposed rule 12-13C adequate? Is there any other information that should be disclosed as part of the description for credit default swaps, interest rate swaps, and total return swaps? Are there other types of swaps that should be included as examples within proposed rule 12-13C? If so, what information should be included in the example?
- As proposed, rule 12-13C would require disclosure of each investment with a referenced asset that is an index whose components are not periodically publicly available on a website and the notional amount of the holding exceeds one percent of the NAV of the fund. Are there better alternatives to disclose the underlying assets of a swap if it consists of a custom basket of securities? If so, what

alternative and why? To the extent such indices are proprietary or subject to licensing agreements, what would be the effect of this requirement? For example, would funds incur costs for amending licensing agreements? Would index providers be unwilling to amend existing licensing agreements? If so, how would this impact funds that make such investments and the marketplace generally? Are there other concerns about disclosing the components of proprietary indices? Should we alter this requirement, and if so how? Is our exceeding one percent of the NAV disclosure threshold appropriate? Should there be a different disclosure threshold applied to a swap's referenced assets? If so, what threshold and why? For example, should there be a disclosure threshold applied to individual holdings (*e.g.*, if the notional amount of a single underlying investment in a custom basket is less than a certain percentage of a fund's net assets)? Should we use a different percentage for the disclosure threshold, such as exceeding five percent of the NAV? Alternatively, would summary disclosure be adequate to inform investors, similar to instruction 3 of rule 12-12C, which requires disclosure of the 50 largest issues and any other issue the value of which exceeded one percent of net asset value of the fund as of the close of the period? If so, how should such a disclosure be handled? Should we include this disclosure requirement for other investments? For example, should we require funds to disclose the referenced asset for futures contracts or forward foreign currency contracts if their underlying investments are composed of an index or custom basket of securities?

- We request comment on our proposed amendments in rule 12-13D (Investments other than those presented in rules 12-12, 12-12A, 12-12B, 12-13, 12-13A,

12-13B, and 12-13C). Should we require different or additional information about these contracts? Should any of the proposed information requirements be excluded?

- We request comment on our proposed requirements in rules 12-13 through 12-13D that the fund identify investments which cannot be sold because of restrictions or conditions applicable to the investment. Is this requirement appropriate? Why or why not? Would this requirement assist investors and other interested parties with understanding the marketability of an investment? Why or why not?
- We request comment on our proposed requirements in rules 12-13 through 12-13D that the fund identify investments whose fair value was determined using significant unobservable inputs. Is this requirement appropriate? Why or why not? Would this requirement assist investors and other interested parties with understanding risks associated with valuation?
- Should we propose a disclosure relating to "investments not readily marketable" as is currently required by rule 12-13? Why or why not?
- We request comment on our proposed requirements in rules 12-13 through 12-13D that the fund identify investments that are considered to be illiquid. Is this requirement appropriate? Why or why not? What are the costs and benefits associated with this requirement? Will independent accountants be able to audit this disclosure?
- We request comment on our proposed disclosures based on cost for Federal income tax purposes under proposed rule 12-12A and rules 12-13 through 12-

13D. Do these disclosures provide meaningful information for investors in addition to tax basis disclosures required under U.S. GAAP? What are the costs and benefits associated with providing this disclosure? Should our proposed disclosures be reported in a separate stand-alone disclosure or, as proposed, as a note to each separate schedule? Should we eliminate the current disclosure requirement to present tax-basis cost and unrealized appreciation and depreciation in both semi-annual and annual shareholder reports? Why or why not? As an alternative, should we make the tax-basis disclosure an annual requirement?

3. Amendments to Rules 12-12 through 12-12C

While we are not proposing changes to the schedules for rules 12-12, 12-12A, and 12-12C, we are proposing certain additional rule instructions that would include new disclosures, as well as certain clarifying changes, including renumbering several of the schedules.

We are proposing several modifications to the instructions to rule 12-12, the rule concerning disclosure of investments in securities of unaffiliated issuers. We are proposing to modify instruction 2 to rule 12-12 (and the corresponding instructions to proposed rules 12-12A, 12-12B, 12-13D, and 12-14) which would require funds to categorize the schedule by type of investment, the related industry, and the related country, or geographic region.[239] U.S. GAAP requires investment companies that are nonregistered investment partnerships to categorize investments in securities by type,

[239] *See* proposed rule 12-12, n.2 of Regulation S-X; *see also* proposed rules 12-12A, n.2; 12-12B, n.2; 12-13D, n.2; and 12-14, n.2 of Regulation S-X.

country or geographic region, and industry.[240] In order to provide more transparency into the industry and the country or geographic region of a fund's investments in securities, we believe that the disclosures provided by funds should provide investors with the same categorization as nonregistered investment partnerships. We also believe that disclosure of both the industry and the country or geographic region would be particularly beneficial for investors in global and international funds, where currently funds are only required to categorize their schedule by industry, country, *or* geographic region, as it would provide additional transparency into the investments owned by the fund.

In order to provide more transparency to a fund's investments in debt securities, we are proposing an instruction to rule 12-12 requiring the fund to indicate the interest rate or preferential dividend rate and maturity rate for certain enumerated debt instruments.[241] When disclosing the interest rate for variable rate securities, we are proposing that the fund describe the referenced rate and spread.[242] In proposing disclosures for variable rate securities, we considered other alternatives, such as period-end interest rate (*e.g.* the investment's interest rate in effect at the end of the period). However, we believe that disclosure of both the referenced rate and spread allow investors to better understand the economics of the fund's investments in variable rate debt securities, such as the effect of a change in the reference rate on the security's income. This proposal is intended to result in more consistency across funds in

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[240] *See* ASC 946-210-50-6, Financial Services – Investment Companies ("ASC 946").

[241] *See* proposed rule 12-12, n.4 of Regulation S-X.

[242] *See id.*

disclosures of the interest rate for variable rate securities. For securities with payments-in-kind, we are proposing that the fund provide the rate paid in-kind in order to provide more transparency to investors when the fund is generating income that is not paid in cash.[243]

Our proposal would modify the current instruction to rule 12-12[244] that requires a fund to identify each issue of securities held in connection with open put or call option contracts and loans for short sales, by adding the requirement to also indicate where any portion of the issue is on loan.[245] We believe that this disclosure would increase the transparency of the fund's securities lending activities. We are also proposing to modify current instruction 3 of rule 12-12 concerning the organization of subtotals for each category of investments, making the instructions consistent with those in proposed rule 12-12B (current rule 12-12C), Summary schedule of investments in securities of unaffiliated issuers.[246]

As in our proposed derivatives disclosures,[247] in order to increase transparency into the observability of inputs used in determining the value of individual investments, we are adding the requirement for funds to disclose those investments whose fair value was determined using significant unobservable inputs.[248] Here, as in our proposed

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243 *Id*.

244 *See* rule 12-12, n.7 of Regulation S-X.

245 *See* proposed rule 12-12, n.11 of Regulation S-X; *see also* proposed rule 12-12B, n.14 of Regulation S-X.

246 *See* rule 12-12, n.3 of Regulations S-X; *see also* proposed rule 12-12B, n.2 of Regulation S-X.

247 *See* proposed rules 12-13, n.7; 12-13A, n.5; 12-13B, n.3; 12-13C, n.6; and 12-13D, n.7 of Regulation S-X.

248 *See* proposed rule 12-12, n.9 of Regulation S-X.

derivatives disclosures, we would expect funds to identify each investment categorized in Level 3 of the fair value hierarchy in accordance with ASC Topic 820. We are also extending this requirement to proposed rules 12-12A and 12-12B.[249]

As in proposed rules 12-13 through 12-13D,[250] proposed instruction 10 to rule 12-12 would contain a requirement to identify each issue of illiquid securities.[251] Like other proposed rules, we believe that this requirement would provide investors with greater transparency and understanding of the liquidity of a fund's investments.[252]

Likewise, we are proposing several modifications to rule 12-12A regarding the presentation of securities sold short, in order to conform the instructions to proposed rule 12-12.[253]

Funds are permitted to include in their reports to shareholders a summary portfolio schedule, in lieu of a complete portfolio schedule, so long as it conforms with

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[249] *See* proposed rules 12-12A, n.6 and 12-12B, n.12 of Regulation S-X.

[250] *See* proposed rules 12-13, n.8; 12-13A, n.6; 12-13B, n.4; 12-13C, n.7; and 12-13D, n.8 of Regulation S-X.

[251] *See* proposed rule 12-12, n.10 of Regulation S-X.

[252] *See supra* note 206 and accompanying text.

[253] Instruction 2 would require the fund to organize the schedule in rule 12-12A in the same manner as is required by instruction 2 of rule 12-12. *See* proposed rule 12-12A, n.2. Instruction 3 would require the fund to identify the interest rate or preferential dividend rate and maturity rate as required by instruction 4 of proposed rule 12-12. *See* proposed rule 12-12A, n.3 of Regulation S-X. Instruction 4 would require the subtotals for each category of investments be subdivided both by investment type and business grouping or instrument type, and be shown together with their percentage value compared to net assets, in the same manner as is required by proposed instruction 5 of rule 12-12. *See* proposed rule 12-12A, n.4 of Regulation S-X. Instruction 6 would require the fund to identify each issue of securities whose fair value was determined using significant unobservable inputs. *See* proposed rule 12-12A, n.6 of Regulation S-X. Instruction 7 would require the fund to identify each issue of securities held in connection with open put or call option contracts in the same manner as required by proposed instruction 11 of rule 12-12. *See* proposed rule 12-12A, n.7 of Regulation S-X. Instruction 8 would extend rule 12-12's tax basis disclosure to securities sold short. *See* proposed rule 12-12A, n.8 of Regulation S-X.

current rule 12-12C (Summary schedule of investments in securities of unaffiliated issuers).[254] In order to maintain numbering consistency and organization throughout the regulation, we are proposing to rename current rule 12-12C (Summary schedule of investments in securities of unaffiliated issuers) as rule 12-12B. As in rule 12-12 and 12-12A, we are not proposing to modify the schedule of proposed rule 12-12B (current rule 12-12C), but again added similar changes to its instructions.[255]

We request comment on our amendments to proposed rules 12-12 through 12-12B of Regulation S-X:

- Are our proposed amendments to rule 12-12 through 12-12B appropriate? Are there other amendments to rules 12-12 through 12-12B that should be made to improve disclosures regarding the investments that would be reported under the rules? If so, what amendments and why?
- We request comment on proposed amendments to rule 12-12 (Investments in securities of unaffiliated issuers). For variable rate securities, we propose to require disclosure of a description of the reference rate and spread (*e.g.*, USD

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[254] *See* rule 6-10(c)(2) of Regulation S-X [17 CFR 210.6-10(c)(2)]; *see also* Quarterly Portfolio Holdings Adopting Release, *supra* note 19.

[255] Instruction 2 would add "type of investment" to the current subtotal requirements for the summary schedule. *See* proposed rule 12-12B, n.2 of Regulation S-X. Instruction 3 would extend rule 12-12's proposed requirement that funds indicate the interest rate or preferential dividend rate and maturity rate for certain enumerated securities. *See* proposed rule 12-12B, n.3 of Regulation S-X. Instruction 5 would require for options purchased all information that would be required by rule 12-13 for written option contracts. *See* proposed rule 12-12B, n.5 of Regulation S-X. Instruction 12 would require the fund to indicate each issue of securities whose fair value was determined using significant unobservable inputs. *See* proposed rule 12-12B, n.12 of Regulation S-X. Instruction 13 would require the fund to identify illiquid securities. *See* proposed rule 12-12B, n.13 of Regulation S-X. Instruction 14 would extend rule 12-12's requirement that the fund indicate where any portion of the issue is on loan. *See* proposed rule 12-12B, n.14 of Regulation S-X.

LIBOR 3-month + 2%). Is this requirement appropriate? Should we alternatively require disclosure of the period end interest rate?

- We request comment on instruction 2 to proposed rule 12-12 (and the corresponding instructions to rules 12-12A, 12-12B, and 12-14) which would require funds to categorize the schedule by type of investment, the related industry, and the related country, or geographic region. Should we include this instruction in our proposed rules? What are the costs or benefits associated with such a requirement?
- We request comment our proposed modifications in rules 12-12 and 12-12B that would require a fund to indicate where any portion of the issue is on loan. Should we include this requirement in our proposed rules? Why or why not?
- We request comment on instruction 4 to proposed rule 12-12. Should we require funds to disclose the interest rate or preferential dividend rate and maturity rate for certain debt instruments? Are there any types of securities that should (or should not) be included in instruction 4's list of applicable debt instruments?
- We request comment on our proposal to require a fund to disclose each issue of illiquid securities. Should we include this requirement in our proposed rules? Why or why not? Would the fund's independent accountants be able to audit this disclosure?
- We request comment on our proposed requirements in rules 12-12, 12-12A, and 12-12B that the fund identify investments whose fair value was determined using significant unobservable inputs. Is this requirement appropriate? Why or why

not? Would this requirement assist investors and other interested parties with understanding risks associated with valuation?

- Are our amendments to proposed rules 12-12 through 12-12B consistent with industry practices? If not, how are our amendments different and what would be the costs and benefits associated with such differences? Are there other industry practices that we should include in our proposal?

4. Investments In and Advances to Affiliates

We are proposing amendments to rule 12-14 (Investments in and advances to affiliates).[256] Rule 12-14 requires a fund to make certain disclosures about its investments in and advances to any "affiliates" or companies in which the investment company owns 5% or more of the outstanding voting securities.[257] The rule currently requires that a fund disclose the "amount of equity in net profit and loss for the period" for each controlled company, but does not require disclosure of realized or unrealized gains or losses. Based upon staff experience, we believe that the presentation of realized gains or losses and changes in unrealized appreciation or depreciation would assist investors with better understanding the impact of each affiliated investment on the fund's statement of operations. As a result, we are proposing to modify column C of the schedule to rule 12-14 to require "net realized gain or loss for the period,"[258] and column

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256 *See* proposed rule 12-14 of Regulation S-X.

257 *See* rule 12-14 of Regulation S-X.

258 *See* proposed rule 12-14, column C of Regulation S-X. Column C of current rule 12-14 requires disclosure of the "amount of equity in net profit and loss for the period," which is derived from the controlled company's income statement and does not directly translate to the impact to a fund's statement of operations. We are proposing to replace this requirement with "net realized gain or loss for the period."

D to require "net increase or decrease in unrealized appreciation or depreciation for the period" for each affiliated investment.[259]

Likewise, in instruction 6(e) and (f), we are proposing to require disclosure of total realized gain or loss and total net increase or decrease in unrealized appreciation or depreciation for affiliated investments in order to correlate these totals to the statement of operations.[260] Disclosure of realized gains or losses and changes in unrealized appreciation or depreciation, in addition to the current requirement to disclose the amount of income, would allow investors to understand the full impact of an affiliated investment on a fund's statement of operations.

Additionally, we are proposing a new instruction 7 in order to make the categorization of investments in and advances to affiliates consistent with the method of categorization used in proposed rules 12-12, 12-12A, and 12-12B.[261] We are also proposing several other modifications to the instructions to rule 12-14 in order to, in part, conform the rule to our proposed disclosure requirements in rules 12-12 and 12-13.[262]

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[259] *See id*. at column D.

[260] *See* proposed rule 12-14, nn.6(e) and (f) of Regulation S-X.

[261] *See id*. at n.7; *see also* proposed rule 12-12, n.5, 12-12A. n.4, 12-12B, n.2 of Regulation S-X.

[262] Instruction 1 would delete the instruction to segregate subsidiaries consolidated in order to make the disclosures under rule 12-14 consistent with the fund's balance sheet. *See* proposed rule 12-14, at n.1 of Regulation S-X. Instruction 2 would require the fund to organize the schedule to rule 12-14 in the same manner as is required by instruction 2 of rule 12-12. *See* proposed rule 12-14, at n.2 of Regulation S-X. Instruction 3 would require the fund to identify the interest rate or preferential dividend rated and maturity rate, as applicable. *See* proposed rule 12-14, at n.3 of Regulation S-X. Instruction 4 would add column F to the columns to be totaled and update the instruction to state that Column F should agree with the correlative amount shown on the related balance sheet. *See* proposed rule 12-14, at n.4 of Regulation S-X. Instruction 5 would update the reference to instruction 8 of rule 12-12 and reference to rule 12-13 to reflect the changes in the numbering of the instructions for those rules. *See* proposed rule 12-14, at n.5 of Regulation S-X. Instruction 6(a) and (b) would update references to column D to reference Column E in order to reflect our proposed

We request comment on our proposed amendments to rule 12-14 of Regulation S-X:

- Are our proposed amendments to rule 12-14 appropriate? Are there other amendments to rule 12-14 that should be made to improve disclosures regarding the investments that would be reported under the rule? If so, what amendments and why?
- In proposed rule 12-14, we are no longer requiring information about the fund's equity in the profit or loss of each controlled portfolio company. Instead, we are proposing to require the realized gain or loss and change in unrealized appreciation or depreciation for all affiliated investments. Is this change appropriate? Is it still important to understand the equity in the profit or loss of each controlled company in addition to the controlled portfolio company's effect on the fund's statement of operations? Would the presentation of realized gains or losses and changes in unrealized appreciation or depreciation assist investors with better understanding the impact of each affiliated investment on the fund's statement of operations? Why or why not? Are there other changes to the

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changes to rule 12-14's schedule. *See* proposed rule 12-14, at nn.6(a) and (b) of Regulation S-X. Instruction 6(d), which proposes to add clarifying language from instruction 7 of rule 12-12, would provide the fund with more detail on the definition of non-income producing securities. *See* proposed rule 12-14, at n.6(d) of Regulation S-X. Instruction 8 would require the fund to identify each issue of securities whose fair value was determined using significant unobservable inputs. *See* proposed rule 12-14, at n.8 of Regulation S-X. Instruction 9 would require the fund to identify illiquid securities. *See* proposed rule 12-14, at n.9 of Regulation S-X. Instruction 10 would require the fund to indicate each issue of securities held in connection with open put or call option contracts, loans for short sales, or where any portion of the issue is on loan, as required by note 11 to rule 12-12. *See* proposed rule 12-14, at n.10 of Regulation S-X. Instruction 11 would extend rule 12-12's tax basis disclosure to investments in and advances to affiliates. *See* proposed rule 12-14, at n.11 of Regulation S-X.

disclosure of affiliated transactions that would better assist investors with understanding the impact of affiliated investments on the fund's statement of operations?

- In addition to those discussed above, what are the costs and benefits associated with the proposed changes? Would the proposed changes under rule 12-14 reduce any burdens on filers? If so, how?
- Are our amendments to proposed rule 12-14 consistent with industry practices? If not, how are our amendments different? Are there other industry practices that we should include in our proposal with respect to the disclosure of affiliated investments?

5. Form and Content of Financial Statements

Finally, we are proposing revisions to Article 6 of Regulation S-X, which prescribes the form and content of financial statements filed for funds. Many of the revisions we are proposing today are intended to conform Article 6 with our proposed changes to Article 12 and update other financial statement requirements.[263] As part of these changes, we are proposing to modify the title and description of Article 6 from "Registered Investment Companies" to "Registered Investment Companies and Business Development Companies" to clarify that BDCs are subject to Article 6 of Regulation S-X.[264] This does not change existing requirements for BDCs.[265]

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[263] We are also proposing to amend the reference in rule 6-03(c) to §210.3A-05, as that section of Regulation S-X was rescinded in 2011. *See* Rescission of Outdated Rules and Forms, and Amendments to Correct References, Securities Act Release No. 33-9273 (Nov. 4, 2011) [76 FR 71872 (Nov. 21, 2011)].

[264] *See* proposed rules 6-01; 6-03; 6-03(c)(1); 6-03(d); 6-03(i); 6-04; and 6-07 of Regulation S-X.

In order to allow a more uniform presentation of investment schedules in a fund's financial statements, we are proposing to rescind subparagraph (a) of rule 6-10 under Regulation S-X, regarding which schedules are to be filed.[266] We believe that a fund and its consolidated subsidiaries should present their consolidated investments for each applicable schedule, without indicating which are owned directly by the fund or which are owned by the consolidated subsidiaries.

Moreover, current rule 6-10(a) provides that if the information required by any schedule (including the notes thereto) is shown in the related financial statement or in a note thereto without making such statement unclear or confusing, that procedure may be followed and the schedule omitted.[267] We believe that some funds may have interpreted this guidance as allowing presentation of some Article 12 schedules (*e.g.*, rules 12-13 and 12-14) in the notes to the financial statements, as opposed to immediately following the schedules required by rules 12-12, 12-12A, and 12-12C, and are therefore proposing to eliminate rule 6-10(a). In light of the increased use of derivatives by funds, we believe that all schedules required by rule 6-10 should be presented together within a fund's financial statements, and not in the notes to the financial statements. We recognize that

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A BDC is a closed-end fund that is operated for the purpose of making investments in small and developing businesses and financially troubled businesses and that elects to be regulated as a BDC. *See* section 2(a)(48) of the Investment Company Act (defining BDCs). BDCs are not subject to periodic reporting requirements under the Investment Company Act, although they must comply with periodic reporting requirements under the Exchange Act.

265 *See* Instruction 1.a to Item 6.c of Form N-2 ("A business development company should comply with the provisions of Regulation S-X generally applicable to registered management investment companies. (*See* section 210.3-18 [17 CFR 210.3-18] and sections 210.6-01 through 210.6-10 of Regulation S-X [17 CFR 210.6-01 through 210.6-10]).").

266 *See* proposed rule 6-10 of Regulation S-X.

267 *See* rule 6-10 of Regulation S-X.

our proposal would change current practice for some funds but believe that, coupled with more detailed disclosure rules for derivatives, this amendment would provide more consistent disclosure and improve the usability of financial statements for investors.[268]

We are also proposing changes to rules 6-03 and 6-04 to specifically reference the investments required to be reported on separate schedules in amended Article 12.[269] Additionally, we are proposing to eliminate current rule 6-04.4, which requires disclosure of "Total investments" on the balance sheet under "Assets," recognizing that investments reported under proposed rules 12-13A through 12-13D could potentially be presented under both assets and liabilities on the balance sheet.[270] For example, a fund may hold a forward foreign currency contract with unrealized appreciation and a different forward foreign currency contract with unrealized depreciation. The fund presents on its balance sheet an asset balance for the contract with unrealized appreciation and a liability balance for the contract with unrealized depreciation. Totaling the amounts of investments reported under assets could be misleading to investors in this example, or in other examples where a fund holds derivatives in a liability position (*e.g.*, unrealized depreciation on an interest rate swap contract). A "Total investments" amount in the Assets section of the fund's balance sheet would include the fund's investments in securities and derivatives that are in an appreciated position, but it would not include the unrealized depreciation on the interest rate swap contract, which would be classified

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[268] Additionally, in order to conform proposed rule 6-10(b) with the new requirements under Article 12, we added schedules corresponding to our proposed new schedules of derivatives investments.

[269] *See* proposed rules 6-03(d), 6-04.3 and 6-04.9 of Regulation S-X.

[270] *See* rule 6-04.4 of Regulation S-X [17 CFR 210.6-04.4].

under the Liabilities section of the fund's balance sheet. Given the increasing use of derivatives by funds, we believe eliminating current rule 6-04.4 would provide more complete information to investors. We are also proposing a corresponding change in rule 6-03(d) to remove the reference to "total investments reported under [rule 6-04.4]."[271]

We are also proposing to amend rule 6-04 to refer individually to our derivatives disclosures in proposed rules 12-13A through 12-13C.[272] As is currently the case, these proposed amendments are not meant to require gross presentation where netting is allowed under U.S. GAAP.[273] For example, if a fund held a forward foreign currency contract which had unrealized appreciation and another forward foreign currency contract which had unrealized depreciation, the fact that forward foreign currency contracts are mentioned in proposed rules 6-04.3(b) and 6-04.9(d) is not meant to require both contracts to be presented gross on the balance sheet if netting were allowed under U.S. GAAP.

Proposed rule 6-05.3 would also specifically require presentation of items relating to investments other than securities in the notes to financial statements.[274] Current rule 6-05.3 only requires presentation in the notes to financial statements of disclosure required by rules 6-04.10 through 6-04.13, which include information relating to securities sold short and open option contracts written.[275] Our proposal would also amend rule 6-05.3 to

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[271] *See* proposed rule 6-03(d) of Regulation S-X.

[272] *See* proposed rules 6-04.3; 6-04.6; and 6-04.9 of Regulation S-X.

[273] *See* ASC 210, Balance Sheet ("ASC 210") and ASC 815.

[274] *See* proposed rule 6-05.3 of Regulation S-X.

[275] *See* rule 6-05.3 of Regulation S-X [17 CFR 210.6-05.3].

require fund financial statements to reflect all unaffiliated investments other than securities presented on separate schedules under Article 12.[276]

We are also proposing to add new disclosure requirements that are designed to increase transparency to investors about certain investments and activities. First, we are proposing to add new subsection (m) to rule 6-03 that would require funds to make certain disclosures in connection with a fund's securities lending activities and cash collateral management.[277] Specifically, we are proposing to require disclosure of (1) the gross income from securities lending, including income from cash collateral reinvestment; (2) the dollar amount of all fees and/or compensation paid by the registrant for securities lending activities and related services, including borrower rebates and cash collateral management services; (3) the net income from securities lending activities; (4) the terms governing the compensation of the securities lending agent, including any revenue sharing split, with the related percentage split between the registrant and the securities lending agent, and/or any fee-for-service, and a description of services included; (5) the details of any other fees paid directly or indirectly, including any fees paid directly by the registrant for cash collateral management and any management fee deducted from a pooled investment vehicle in which cash collateral is invested; and (6) the monthly average of the value of portfolio securities on loan.[278] We believe that these proposed disclosures would allow investors to better understand the income generated from, as well as the expenses associated with, securities lending activities. Second, our

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[276] *See* proposed rule 6-05.3 of Regulation S-X.

[277] *See supra* note 71 and accompanying text.

[278] *See* proposed rule 6-03(m) of Regulation S-X.

proposal would also amend rule 6-07 to require funds to make a separate disclosure for income from non-cash dividends and payment-in-kind interest on the statement of operations.[279] Our proposed amendment to rule 6-07 is intended to increase transparency for investors in order to allow them to better understand when fund income is earned, but not received, in the form of cash.

We are proposing to amend rule 6-07.7(a) in order to conform statement of operations disclosures of the net realized gains or losses from investments to include our additional derivatives disclosures in proposed rules 12-13A through 12-13C.[280] Likewise, we are proposing similar changes to proposed 6-07.7(c) (current rule 6-07.7(d)) in order to conform statement of operations disclosures of the net increase or decrease in the unrealized appreciation or depreciation of investments to include our new derivatives disclosures.[281] We recognize that Regulation S-X, which organizes net realized gains and losses (and net increases or decreases in the unrealized appreciation or depreciation) by investment type, diverges from our approach in proposed Form N-PORT, which organizes net realized gain or loss and net change in unrealized appreciation or depreciation attributable to derivatives by each instrument's primary underlying risk exposure.[282] While we believe that organizing these disclosures by exposure type, which are derived from ASC Topic 815, are appropriate for Form N-PORT; we also believe that it is more appropriate for statement of operations disclosures to be organized by major types of investment transactions, as doing so would be consistent with the types of

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[279] *See* proposed rule 6-07.1 of Regulation S-X.

[280] *See* proposed rule 6-07.7(a) of Regulation S-X.

[281] *See* proposed rule 6-07.7(c) of Regulation S-X.

[282] *See* Item B.5.c of proposed Form N-PORT.

investments requiring separate schedules in Article 12 and allow investors to relate the disclosures in the schedule of investments with the statement of operations.[283]

We are also proposing to eliminate Regulation S-X's requirement for specific disclosure of written options activity under current rule 6-07.7(c).[284] This provision was adopted prior to FASB adopting disclosures generally applicable to derivatives, including written options, now required by ASC Topic 815.[285] We are proposing that the requirement for specific disclosures for written options activity be removed because they are generally duplicative of the requirements of ASC Topic 815, which include disclosure of the fair value amounts of derivative instruments, gains and losses on derivative instruments, and information that would enable users to understand the volume of derivative activity.[286]

We are also proposing to eliminate the exception in Schedule II of current rule 6-10 which does not require reporting under current rule 12-13 if the investments, at both the beginning and end of the period, amount to one percent or less of the value of total

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283 *See* ASC 815.

284 *See* rule 6-07.7(c) of Regulation S-X [17 CFR 210.6-07.7(c)].

285 *See* ASC 815.

286 *Id*. Rule 6-07.7(c) requires disclosure in a note to the financial statements of the number and associated dollar amounts as to option contracts written: (i) At the beginning of the period; (ii) during the period; (iii) expired during the period; (iv) closed during the period; (v) exercised during the period; (vi) balance at end of the period. The balances at the beginning of the period and end of the period are available in the prior period-end and current period-end schedules of open option contracts written, respectively. By eliminating the written options roll-forward, investors would no longer have information regarding the number of contracts expired, closed, or exercised during the period. However, disclosures required by ASC 815 provide gains and losses on derivative instruments, including written options, along with information that would enable users to understand the volume of derivative activity during the period.

investments.[287] We believe that it is appropriate to propose eliminating this exception, because a fund may have significant notional amount in its portfolio that could be valued at one percent or less of the value of total investments. Accordingly, removing this exception would provide more transparency to investors regarding a fund's derivatives activity.

We request comment on our proposed changes to Article 6 of Regulation S-X.

- Are our proposed amendments to Article 6 of Regulation S-X appropriate? If not, which amendments are not appropriate and why? Are there other amendments to Article 6 of Regulation S-X that we should propose? If so, what amendments and why?
- Are there alternative methods of presentation of derivatives that we should consider, rather than the proposed requirement that all schedules be presented in the same location? If so, what method and why is it preferable?
- As we discussed above, among others, our basis for proposing to eliminate rule 6-10(a) was our belief that a fund and its consolidated subsidiaries should present their consolidated investments for each applicable schedule, without indicating which are owned directly by the fund and which are owned by the consolidated subsidiaries. Is this proposed change appropriate? Why or why not? Should we require different or additional information about consolidated investments?
- We request comment on our proposal to eliminate rule 6-04.4, which requires disclosure of "Total investments" on the balance sheet under "Assets," and the

[287] *See* rule 6-10(c)(1) Schedule II of Regulation S-X; *see also* proposed rule 6-10(b)(1) Schedule II of Regulation S-X.

corresponding reference to rule 6-04.4 in rule 6-03(d). Are these proposed changes appropriate? Why or why not? Would eliminating current rule 6-04.4 provide more complete information to investors?

- We request comment on our proposal to amend rule 6-05.3 to specifically require presentation of items relating to investments other than securities in the notes to the financial statements, as well as require fund financial statements to reflect all unaffiliated investments presented on separate schedules under Article 12. Are our proposed changes appropriate? Why or why not?
- Would the disclosure required under proposed rule 6.03(m) concerning income and expenses in connection with securities lending activities provide meaningful information to investors or other potential users? For example, would the disclosures regarding compensation and other fee and expense information relating to the securities lending agent and cash collateral manager be useful to fund boards in evaluating their securities lending arrangements? Would these disclosures be sufficient for this purpose, or would additional information be necessary, for example, to put the fee and expense information in context (*e.g.*, the nature of the services provided by the securities lending agent and cash collateral manager)? Should the Commission instead require that these or other similar disclosures, be provided elsewhere in the fund's financial statements (*e.g.*, the Statement of Operations), or provided as part of other disclosure documents (*e.g.*, the Statement of Additional Information) or reporting forms (*e.g.*, proposed Form N-CEN)? Why or why not?

- Is the proposed disclosure under rule 6-07.1 for non-cash dividends and payment-in-kind interest on the statement of operations meaningful to investors or other potential users of the fund's financial statements? Should all non-cash interest be disclosed, including amortization and accretion, or should just payment-in-kind interest be disclosed?
- Do our proposed amendments to rules 6-07.7(a) and 6-07.7(c) omit any classifications of gains or loss or changes in unrealized appreciation or depreciation that should be disclosed? If so, which categories and why?
- We request comment on our proposal to eliminate Regulation S-X's requirements for specific disclosure of written options activity under rule 6-07.7(c). Does the current requirement for specific disclosure of written options activity under rule 6-07.7(c) provide a user of financial statements with sufficient incremental benefit to merit retaining this disclosure in addition to the disclosures required by ASC Topic 815? Why or why not?
- Proposed rule 6-10(b) would no longer allow funds to omit the schedule of investments other than securities if the investments, other than securities, at both the beginning and end of the period amount to one percent or less of the value of total investments. Is this change appropriate? Are there any costs associated with this change? If so, what are they?
- Are our amendments to Article 6 of Regulation S-X generally consistent with industry practices, except where specifically noted in the discussion above? If not, how are our amendments different? Are there other industry practices that

we should include in our proposal with respect to the form and content of financial statements?

D. Option for Website Transmission of Shareholder Reports

1. Overview

The Commission is proposing new rule 30e-3 under the Investment Company Act, which would, if adopted, permit, but not require, a fund to satisfy requirements under the Act and rules thereunder to transmit reports to shareholders if the fund makes the reports and certain other materials accessible on its website. Reliance on the rule would be subject to certain conditions, including conditions relating to (1) the availability of the shareholder report and other required information, (2) prior shareholder consent, (3) notice to shareholders of the availability of shareholder reports, and (4) shareholder ability to request paper copies of the shareholder report or other required information.

This new option is intended to modernize the manner in which periodic information is transmitted to shareholders. We believe it would improve the information's overall accessibility while reducing burdens such as printing and mailing costs borne by funds, and ultimately, by fund shareholders. As described below, today's proposal draws on the Commission's experience with use of the Internet as a medium to provide documents and other information to investors. The proposal is supported by recent Commission investor testing efforts and other empirical research concerning investors' preferences about report transmission methods and use of the Internet for financial and other purposes generally. At the same time, the Commission recognizes that empirical research, discussed below, demonstrates that some investors continue to prefer to receive paper reports. The proposal therefore incorporates a set of protections

intended to avoid investor confusion and protect the ability of investors to choose their preferred means of communication.

Reliance on the rule would be optional. Funds that do not maintain websites or that otherwise wish to transmit shareholder reports in paper or pursuant to the Commission's existing electronic delivery guidance would continue to be able to satisfy transmission requirements by those transmission methods. Furthermore, under the rule as proposed, a fund relying on the rule to satisfy shareholder report transmission obligations with respect to certain shareholders would not be precluded from transmitting shareholder reports to other shareholders pursuant to the Commission's electronic delivery guidance. We expect that funds would continue to rely on the Commission's guidance to electronically transmit reports to shareholders who have elected to receive reports electronically, and rely on the rule with respect to shareholders who have not so elected (*i.e.*, those who currently receive printed shareholder reports by mail).

2. Discussion

Funds are generally required to transmit reports to shareholders on a semiannual basis.[288] Historically, these reports have been printed and mailed to shareholders. With advances in technology and, in particular, the increasing use of the Internet as a medium through which information, financial or otherwise, is made accessible, we have previously issued guidance describing the circumstances under which transmission of

[288] *See* section 30(e) of the Investment Company Act [15 U.S.C. 80a-29(e)]; rule 30e-1 (reports to stockholders of management companies); rule 30e-2 (reports to shareholders of unit investment trusts substantially all the assets of which consist of securities issued by a management company).

disclosure documents may be effected through electronic means.[289] Under that guidance, funds may transmit documents electronically provided that a number of conditions related to shareholder notice, access, and evidence of delivery are met.[290]

Recent investor testing and Internet usage trends have highlighted that preferences about electronic delivery of information have evolved, and that many investors would prefer enhanced availability of fund information on the Internet. For example, investor testing sponsored by the Commission and conducted in 2011[291] suggested that an investor

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289 *See generally* Use of Electronic Media for Delivery Purposes, Investment Company Act Release No. 21399 (Oct. 6, 1995) [60 FR 53458 (Oct. 13, 1995)] ("1995 Release") (providing Commission views on the use of electronic media to deliver information to investors, with a focus on electronic delivery of prospectuses, annual reports to security holders and proxy solicitation materials under the federal securities laws); Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, Investment Company Act Release No. 21945 (May 9, 1996) [61 FR 24644 (May 15, 1996)] ("1996 Release") (providing Commission views on electronic delivery of required information by broker-dealers, transfer agents and investment advisers); Use of Electronic Media, Investment Company Act Release No. 24426 (Apr. 28, 2000) [65 FR 25843 (May 4, 2000)] ("2000 Release") (providing updated interpretive guidance on the use of electronic media to deliver documents on matters such as telephonic and global consent; issuer liability for website content; and legal principles that should be considered in conducting online offerings).

More recently, the Division of Investment Management published guidance stating the staff's position that electronic delivery of a notice pursuant to rule 19a-1 under the Investment Company Act, consistent with the Commission's electronic delivery guidance, would satisfy the purposes and policies underlying the rule. *See* Division of Investment Management, Securities and Exchange Commission, *Shareholder Notices of the Sources of Fund Distributions – Electronic Delivery*, IM Guidance Update No. 2013-11 (Nov. 2013), *available at* http://www.sec.gov/divisions/investment/guidance/im-guidance-2013-11.pdf ("2013-11 IM Guidance Update").

290 *See id.*

291 In 2011, the Commission engaged a consultant to conduct investor testing regarding shareholder reports. We have placed the consultant's report concerning that testing ("Investor Testing of Mutual Fund Shareholder Reports") in the comment file for the proposed rule (available at www.sec.gov/comments/s7-08-15/s70815.shtml**)**. Separately, Commission staff prepared a study of investor financial literacy pursuant to section 917 of the Dodd-Frank Act. Materials relating to this study, including the staff's report, are available at http://www.investor.gov/publications-research-studies/sec-research.

Also, in 2007, the Commission engaged a consultant to conduct focus group interviews and a telephone survey concerning investors' views and opinions about various disclosure

looking for a fund's annual report is most likely to seek it out on the fund's website, rather than request it by mail or phone or by retrieving it from the Commission's EDGAR system.[292] Many investors indicated that they would prefer that fund information be made available in both electronic and print versions, with a plurality of respondents preferring electronic transmission by email with the option to easily request a print copy of a particular report, though a significant minority indicated that they would still prefer to receive a print copy through the mail.[293]

In the time since this investor testing was conducted, access to and use of the Internet has continued to increase significantly, including among demographic groups that have previously been less apt to use the Internet. For example, a study conducted by

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documents filed by companies, including mutual funds. We have placed the consultant's report concerning the focus group testing and related transcripts in the comment file for the proposed rule (available at www.sec.gov/comments/s7-08-15/s70815.shtml**)**. The consultant's report concerning the telephone survey ("Telephone Survey Report") is available at http://www.sec.gov/pdf/disclosuredocs.pdf. Respondents to the telephone survey who had received a mutual fund shareholder report, for example, were asked about their preferences for a mode of delivery of the information contained in a shareholder report, and "an Internet website" received the highest ratings (with 49% rating it 7 or above on a 10 point scale), compared with 42% of respondents who rated "a paper copy" 7 or above. *See* Telephone Survey Report at 96.

[292] *See* Investor Testing of Mutual Fund Shareholder Reports, *supra* note 291, at 72. When asked "If you wanted to see a mutual fund annual report, how would you access/obtain the report? Please check all that apply.," 59.5% of respondents selected "look on the mutual fund company's website," compared with 33.3% who selected "ask my financial advisor," 24.5% who selected "request by mail," 21.0% who selected "do a web search (Google, etc.)," 18.8% who selected "request by phone," 12.3% who selected "check with my employer's HR or employee benefits representative," 11.3% who selected "look on the SEC's website or on EDGAR," and 2.3% who selected "other." *Id.*

[293] *See id.* at 185. When asked "How would you prefer to receive information about your mutual fund investments?," 25.8% of respondents selected "online through a link provided in an e-mail, with the option to request a print version," compared with 19.5% of respondents who selected "in print through the mail, with a web address provided for an online version," 18.5% who selected "online through a link provided in an e-mail," 16.5% who selected "a print summary of the key information through the mail, with a web address provided for a complete online version," 13.8% who selected "in print through the mail," and 6.0% who selected "I don't have a preference." *Id.*

the Pew Research Center's Internet & American Life Project in 2013 found that only 15% of American adults ages 18 and older do not use the Internet or email—falling from 26% in 2011, when our investor testing was conducted, and from 39% a decade before in 2001.[294] These researchers also found that for the first time in 2012, more than half of adults over the age of 64 used the Internet, a figure that climbed to 59% in 2013.[295]

These trends have also extended to use of the Internet for financial purposes. For example, a recent survey by the Investment Company Institute found that in 2014, 94% of U.S. households owning mutual funds had Internet access (up from 68% in 2000), with widespread use among various age groups, education levels and income levels.[296] The year before, the Investment Company Institute found that 82% of U.S. households owning mutual funds used the Internet for financial purposes.[297]

Given the evolving preferences and trends in Internet usage, in particular with regard to the delivery of financial information, we believe that it is appropriate to propose a rule that would permit the website transmission of fund shareholder reports, while maintaining the ability of shareholders who prefer to receive reports in paper to receive reports in that form. Funds and their shareholders would benefit from the reductions in related printing and mailing costs. Also, the rule, as proposed, would consolidate current

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294 *See* Pew Research Center, *Who's Not Online and Why*, at 2 (Sept. 25, 2013), *available at* http://pewinternet.org/Reports/2013/Non-internet-users.aspx.

295 *See* Pew Research Center, *Older Adults and Technology Use*, at 1 (Apr. 3, 2014), *available at* http://www.pewinternet.org/2014/04/03/older-adults-and-technology-use/.

296 *See* 2015 ICI Fact Book, at 129, *supra* note 4. For example, the study found the following with respect to Internet access in mutual fund owning households: (1) head of household age 65 or older, 86% have access, (2) education level of high school diploma or less, 84% have access, and (3) household income of less than $50,000, 84% have access.

297 *See* 2014 Investment Company Fact Book, Investment Company Institute, at 115–17, *available at* http://www.ici.org/pdf/2014_factbook.pdf.

and historical portfolio holdings information in one location (*i.e.*, a particular website, as opposed to having some information on one website and other information on EDGAR), whereas currently, funds are not required to transmit or otherwise make accessible to investors holdings information as to the first and third fiscal quarters.[298]

Although we believe the proposed rule would benefit many investors, we recognize that there are concerns associated with how some investors may be affected. For example, as discussed above, investor testing suggests that a significant minority of investors prefer to receive paper reports and that some demographic groups of investors may be less likely to use the Internet. Some of these investors might not fully understand the actions they would need to take under the proposed rule to continue to receive their reports in paper. We believe that it is critical that these investors continue to receive disclosure in a means that is convenient and accessible for them. In addition, there is a risk that even some investors that prefer to use the Internet might be less likely to review reports electronically than they would in paper. We also believe it is critical that the proposed rule communicate the importance of the information that would be made available on the website.

Accordingly, as discussed below, the proposed rule would include certain safeguards for investors who wish to continue to receive shareholder reports in paper, by requiring prior consent of investors, and continuing to make shareholder reports and other required information available in paper upon request. The proposed rule would also

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[298] Currently, funds report their complete portfolio holdings as of the first and third fiscal quarters on Form N-Q, which is accessible only through EDGAR. There is no separate requirement for funds to transmit or otherwise make this information available to shareholders.

include requirements intended to emphasize the importance of the information available on the website. These protections are intended to maintain the ability of investors who prefer to receive reports in paper to continue to do so without confusion, as well as to provide to investors clear and prominent printed notifications each time a new shareholder report is made available online. We request comment below on the potential concerns articulated above, as well as the steps we are proposing to address them while capturing the potential benefits for investors and funds of electronic communication.

3. Rule 30e-3

As proposed, new rule 30e-3 would provide that a fund's annual or semiannual report to shareholders would be considered transmitted to a shareholder of record if certain conditions set forth in the rule are satisfied as to (a) availability of the report and other materials, (b) shareholder consent, (c) notice to shareholders, and (d) delivery of materials upon request of the shareholder.[299] As discussed below, these conditions are generally consistent with similar conditions in other rules adopted by the Commission, including its rules regarding the use of a summary prospectus, internet delivery of proxy materials, and "householding" of certain disclosure documents.

a. Availability of Report and Other Materials

Under the rule as proposed, the fund's report to shareholders under rule 30e-1 or 30e-2 would be required to be publicly accessible, free of charge, at a specified website address.[300] The report would need to be accessible beginning no later than the date of the transmission in reliance on this option, and ending no earlier than the date when the fund

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[299] Proposed rule 30e-3(a).

[300] Proposed rule 30e-3(b)(1).

next "transmits" a report required by rule 30e-1 or 30e-2.[301] This requirement is intended to provide shareholders with the opportunity for ongoing access from the date of intended transmission until the date that the fund transmits its next shareholder report.[302]

In addition to the most current shareholder report, the rule as proposed would require that the fund post on its website (1) any previous shareholder report transmitted to shareholders of record within the last 244 days,[303] and (2) in the case of a fund that is not a money market fund or an SBIC, the fund's complete portfolio holdings as of the close of its most recent first and third fiscal quarters, if any, after the date on which its registration statement became effective.[304] In addition, a fund that is not a money market fund or an SBIC would be required to make its portfolio holdings as of the end of the next fiscal quarter accessible in the same manner within 60 days after the close of that period.[305] We are proposing exceptions to the posting requirement of first and third fiscal quarter portfolio holdings schedules for money market funds and SBICs because money

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[301] *Id.*

[302] *See* 1995 Release, *supra* note 289 (noting that to satisfy access requirements under the Commission's electronic delivery guidance, "as is the case with a paper document, a recipient should have the opportunity to retain the information or have ongoing access equivalent to personal retention).

[303] Proposed rule 30e-3(b)(1)(ii). Thus, for example, a fund with a December 31 fiscal year end wishing to rely on rule 30e-3 to transmit its annual report to shareholders would also be required to ensure that its semiannual report as of June 30 is similarly accessible. Only those annual and semiannual reports that are required under rule 30e-1 or rule 30e-2 are required to be accessible in order to rely on rule 30e-3. Thus, for example, if a fund is transmitting a report for its first operational semiannual period, the fund could rely on rule 30e-3 to transmit that report, despite not having made a previous report publicly accessible provided that it meets the other required conditions.

[304] *See* proposed rule 30e-3(b)(1)(iii).

[305] *See* proposed rule 30e-3(b)(2). For example, a fund with a December 31 fiscal year end wishing to rely on rule 30e-3 to transmit its annual report to shareholders would also be required to ensure that its complete portfolio holdings for the first quarter of the next year is similarly available.

market funds are currently required to post certain portfolio holdings and other information on their websites pursuant to rule 2a-7,[306] and because SBICs are neither currently required to file reports on Form N-Q,[307] nor would SBICs be required to file reports on proposed Form N-PORT.[308]

These materials would also be required to be publicly accessible in the same manner and for the same time period as the current shareholder report.[309] We are proposing this requirement so that shareholders have access to a complete year of portfolio holdings information in one location (*i.e.*, the website on which the report transmitted under the proposed rule is made accessible), rather than have to separately access portfolio holdings information for the first and third quarters by accessing the fund's reports on Form N-PORT for those periods.

To conform the form and content of the portfolio holdings schedules for the first and third quarters to those schedules presented in the fund's shareholder reports for the second and fourth quarters, the proposed rule would require the schedules for the first and third quarters to be presented in accordance with the schedules set forth in §§210.12-12 – 12-14 of Regulation S-X [17 CFR 210.12-12 – 12-14], which need not be audited.[310] As discussed above, we have also proposed to require that these materials be filed as exhibits

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306 *See* rule 2a-7(h)(10). In 2014, we adopted certain amendments to the website disclosure requirements for money market funds under rule 2a-7. The compliance date for these amendments is April 14, 2016. *See* Money Market Fund Reform 2014 Release, *supra* note 13, at sections III.E.9 and III.N.4.

307 *See* rule 30b1-5.

308 *See* proposed rule 30b1-9.

309 Proposed rules 30e-3(b)(1) and (b)(2).

310 *Id*.

to Form N-PORT, regardless of whether the fund intends to rely on the rule to satisfy its shareholder report transmission obligations.[311]

These website portfolio disclosure requirements would be generally consistent with funds' current disclosure obligations under Regulation S-X for reports filed on Forms N-Q and N-CSR.[312] Accordingly, we anticipate that most funds would have established procedures in place to report and validate such disclosures, and that funds would be familiar with these disclosure requirements. These website portfolio disclosure requirements are also intended to provide disclosures that would be easily understood and familiar to investors, because these disclosures would contain similar information and would be presented in a similar manner as those currently included in shareholder reports.

Proposed rule 30e-3 would require compliance with certain conditions designed to ensure the accessibility of shareholder reports and other required materials.[313] First, the website address on which the shareholder reports and other required portfolio information are made accessible could not be the Commission's website address for electronic filing.[314] Second, the materials required to be posted on the website would have to be presented in a format that is convenient for both reading online and printing on paper, and persons accessing the materials would have to be able to permanently retain (free of

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311 *See supra* Part II.A.2.j.

312 *See generally supra* note 27.

313 These requirements are largely similar to the accessibility requirements of rule 498 under the Securities Act, which allows funds to use a summary prospectus, and rule 14a-16 under the Securities Exchange Act, which requires issuers and other soliciting persons to furnish proxy materials by posting these materials on a public website and notifying shareholders of the availability of these materials and how to access them.

314 *See* proposed rule 30e-3(b)(3). Currently, the Commission's electronic filing system for fund documents is EDGAR.

charge) an electronic copy of the materials in this format.[315] These conditions are designed to ensure that shareholder reports and other information posted on a fund's website pursuant to the proposed rule are user-friendly and allow shareholders the same ease of reference and retention abilities they would have with paper copies of the information.

Third, the rule as proposed would include a safe harbor provision that would allow a fund to continue relying on the rule even if it did not meet the posting requirements of the rule for a temporary period of time.[316] In order to rely on this safe harbor, a fund would be required to have reasonable procedures in place to ensure that the required materials are posted on its website in the manner required by the rule and take prompt action to correct noncompliance with these posting requirements.[317] We are proposing this safe harbor because we recognize that there may be times when, due to events beyond a fund's control, such as system outages or other technological issues, natural disasters, acts of terrorism, pandemic illnesses, or other circumstances, a fund is temporarily not in compliance with the Internet posting requirements of the rule.[318]

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315 *See* proposed rules 30e-3(b)(4) and (5).

316 *See* proposed rule 30e-3(b)(6). The rule provides that the conditions in paragraphs (b)(1) through (b)(5) of the rule (*i.e.*, the posting requirements) shall be deemed to be met, notwithstanding the fact that the materials required by paragraph (b)(1) of the rule are not available for a period of time in the manner required by the posting requirements, so long as certain conditions are met. *See id.*

317 *See* proposed rules 30e-3(b)(6)(i) and (ii). The rule would require prompt action "as soon as practicable following the earlier of the time at which it knows or reasonably should have known" that the required documents are not available in the manner prescribed by the posting requirements of the rule.

318 *Compare* rule 498(e)(4) of the Securities Act (providing a similar safe harbor under the summary prospectus rule for the same reasons).

b. Shareholder Consent

While we believe that many investors would prefer electronic transmission of shareholder reports based on investor testing and Internet usage trends, we also acknowledge that there likely will be investors that may continue to prefer receiving shareholder reports in paper.[319] To maintain the ability of those shareholders to receive paper copies of their shareholder reports, the rule as proposed would require that a fund obtain shareholder consent prior to relying on the rule to satisfy transmission obligations with respect to a particular shareholder.[320] Specifically, rule 30e-3 as proposed would permit electronic transmission of shareholder report to a particular shareholder only if the shareholder has either previously consented to this method of transmission,[321] or has been determined to have provided implied consent under certain conditions specified in the

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[319] *See supra* notes 291–296 and accompanying text.

[320] These conditions are substantially similar to certain of the conditions relating to the Commission's rules on "householding" prospectuses, shareholder reports, and proxy statements and information statements to investors who share an address. *See, e.g.,* rule 154 under the Securities Act [17 CFR 230.154] (permitting householding of prospectuses); rules 30e-1 and 30e-2 under the Investment Company Act (permitting householding of fund shareholder reports); rules 14a-3 and 14c-3 under the Exchange Act (permitting householding of proxy statements and information statements). *See generally* Delivery of Disclosure Documents to Households, Investment Company Act Release No. 24123 (Nov. 4, 1999) [64 FR 62540 (Nov. 16, 1999)] (adopting householding rules with respect to prospectuses and shareholder reports); Delivery of Proxy Statements and Information Statements to Households, Investment Company Release No. 24715 (Oct. 27, 2000) [65 FR 65736 (Nov. 2, 2000) (adopting householding rules with respect to proxy statements and information statements). For purposes of the householding rules, consent may be written or implied.

[321] While the householding rules require that consent be "in writing," we are not proposing a similar "in writing" requirement as, consistent with the Commission's guidance on electronic delivery, consent may be provided in a number of ways, including in writing, electronically, or telephonically. *See* 1995 Release, *supra* note 289 (noting that one method for satisfying evidence of delivery is to obtain informed consent from an investor to receive information through a particular medium); 1996 Release, *supra* note 289 (stating that informed consent should be made by written or electronic means); 2000 Release, *supra* note 289 (stating Commission's view that an issuer or market intermediary may obtain an informed consent telephonically, as long as a record of that consent is retained).

rule.[322] Under the proposed rule, each series of a registrant offering multiple series would need to obtain separate consent as to a shareholder, regardless of whether consent was obtained from that shareholder by other series offered by that registrant.[323]

To obtain implied consent as to a shareholder, the fund would be required to transmit to the shareholder a separate written statement ("Initial Statement"), at least 60 days before it begins to rely on the rule, notifying the shareholder of the fund's intent to make future shareholder reports available on the fund's website until the shareholder revokes consent.[324] As proposed, the Initial Statement must be written using plain English principles so that it will be easily understood by most investors [325] and:

- state that future shareholder reports will be accessible, free of charge, at a website;[326]
- explain that the fund will no longer mail printed copies of shareholder reports to the shareholder unless the shareholder notifies the fund that he or she wishes to receive printed reports in the future;[327]
- include a toll-free telephone number and be accompanied by a reply form that is pre-addressed with postage-paid and that includes the information that the fund would need to identify the shareholder, and explain that the shareholder can use

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322 Proposed rule 30e-3(c).

323 *See id*.

324 *See* proposed rule 30e-3(c)(1). For purposes of the rule, "Initial Statement" would be defined as the notice described in paragraph (c)(1) of the rule. *See* proposed rule 30e-3(h)(2).

325 *See* proposed rules 30e-3(c)(1) and (e). *See also* A Plain English Handbook, Securities and Exchange Commission, *available at* https://www.sec.gov/pdf/handbook.pdf.

326 Proposed rule 30e-3(c)(1)(i).

327 Proposed rule 30e-3(c)(1)(ii).

either of those two methods at any time to notify the fund that he or she wishes to receive printed reports in the future;[328]

- state that the fund will mail printed copies of future shareholder reports within 30 days after the fund receives notice of the shareholder's preference;[329] and
- contain a prominent legend in bold-face type that states: "How to Continue Receiving Printed Copies of Shareholder Reports."[330]

The Initial Statement is designed to permit funds to infer that a shareholder has consented to electronic transmission of future shareholder reports by alerting the shareholder to the fact that the shareholder will no longer receive printed copies in the future unless the shareholder notifies the fund that he or she wishes to receive print copies of such reports in the future. Because of the importance of this information, in addition to the required prominent legend on the envelope in which the Initial Statement is delivered or on the Initial Statement itself, the proposed rule would require certain conditions intended to ensure that the Initial Statement is not obscured by other materials. Specifically, the proposed rule would require that the Initial Statement could not be incorporated into or combined with another document,[331] nor could it be sent along with other shareholder communications (with the exception of the fund's current summary

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[328] Proposed rule 30e-3(c)(1)(iii).

[329] Proposed rule 30e-3(c)(1)(iv).

[330] Proposed rule 30e-3(c)(1)(v). This legend would be required to appear on the envelope on which the Initial Statement is delivered, or alternatively, if the Initial Statement is delivered separately from other communications to investors, the legend may appear either on the Initial Statement or on the envelope in which the Initial Statement is delivered.

[331] *See* proposed rule 30e-3(c)(2).

prospectus, statutory prospectus, statement of additional information, or Notice of Internet Availability of Proxy Materials under rule 14a-16 under the Exchange Act).[332]

If the fund does not receive the reply form or other notification indicating that a particular shareholder wishes to continue to receive paper reports by mail within 60 days after the fund sends the Initial Statement, then the fund may begin to transmit shareholder reports to that shareholder electronically, provided that it meets the other conditions of the rule.[333]

c. Notice

Proposed rule 30e-3 would require funds relying on the rule with respect to a shareholder who has consented to electronic transmission pursuant to the conditions of paragraph (c)(1) of the rule to send a notice ("Notice") within 60 days of the close of the fiscal period to which the report relates.[334] The proposed requirements for a Notice largely mirror the notice requirements under the Commission's rules mandating the posting of proxy materials online.[335]

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[332] *See* proposed rule 30e-3(c)(3). For purposes of the proposed rule, (1) "summary prospectus" would mean the summary prospectus described in paragraph (b) of rule 498, (2) "statutory prospectus" would mean a prospectus that satisfies the requirements of section 10(a) of the Securities Act, and (3) "statement of additional information" means the statement of additional information required by Part B of the registration form applicable to the fund. *See* proposed rule 30e-3(h).

[333] Proposed rule 30e-3(c)(4).

[334] *See* proposed rule 30e-3(d). For purposes of the rule, "Notice" would be defined as the notice described in paragraph (d) of the rule. *See* proposed rule 30e-3(h)(3).

[335] *See* rule 14a-16 under the Exchange Act [17 CFR 240.14a-16].

As proposed, the Notice, like the Initial Statement, would be required to be written using plain English principles so that it will be easily understood by most investors.[336] and:

- contain a prominent legend in bold-face type stating that an important report to shareholders is available online and in print by request;[337]
- state that each shareholder report contains important information about the fund, including its portfolio holdings, and is available on the Internet or, upon request, by mail, and encouraging shareholders to access and review the report;[338]
- include a website address that leads directly to each report the fund is transmitting to the recipient shareholder in reliance on rule 30e-3;[339]
- include the website address where the shareholder report and other required portfolio information is posted;[340]
- provide instructions on how a shareholder may request, at no charge, a paper copy of the shareholder report or other materials required to be made accessible online,

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[336] *See* proposed rules 30e-3(d)(1) and (e).

[337] Proposed rule 30e-3(d)(1)(i). The rule as proposed would also require that the legend include the specific fund name to which the Notice relates, or the fund complex name.

[338] Proposed rule 30e-3(d)(1)(ii).

[339] Proposed rule 30e-3(d)(1)(iii). A fund could send a joint Notice with other funds held by the same shareholder in a fund complex; however, the Notice would have to include a link to each of those funds' shareholder reports. A fund may also send a separate Notice if it so wishes.

[340] Proposed rule 30e-3(d)(1)(iv). The website address would have to be specific enough to lead investors directly to the documents that are required to be posted online under the rule. The website address could be a central site with prominent links to each document, but could not be a home page or section of the website other than where the documents are posted. *See id.*

and an indication that the shareholder will not receive a paper copy of the report unless requested;[341] and

- include a toll-free telephone number and must be accompanied by a reply form that is pre-addressed with postage-paid and that includes the information that the fund would need to identify the shareholder, and explain that the shareholder can use either of those two methods at any time to notify the fund that he or she wishes to receive printed reports in the future.[342]

The proposed Notice is designed to alert shareholders to the availability of a shareholder report online and to provide shareholders with information on how to obtain a paper copy of the report if they should want one. We believe it is important to limit the information in the Notice and the other materials sent along with the Notice in order to ensure that shareholders are made aware of the availability of a shareholder report and so that the availability of the report does not become obscured. Therefore, the rule as proposed would limit the information contained in the Notice to the information required by the rule.[343] The Notice also could not be incorporated into or combined with another document,[344] nor could it be sent along with other shareholder communications (with the exception of the fund's current summary prospectus, prospectus, statement of additional information, or Notice of Internet Availability of Proxy Materials under rule 14a-16 under the Exchange Act).[345]

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[341] Proposed rule 30e-3(d)(1)(v).

[342] Proposed rule 30e-3(d)(1)(vi).

[343] *See* proposed rule 30e-3(d)(3).

[344] *See* proposed rule 30e-3(d)(2).

[345] *See* proposed rule 30e-3(d)(4).

Similar to the Commission's rules on householding prospectuses, shareholder reports, and proxy statements and information statements,[346] proposed rule 30e-3 also would allow funds to send one Notice to shareholders who share an address so long as the fund addresses the Notice to the shareholders individually or as a group.[347] In addition, the proposed rule would require funds to file a form of the Notice with the Commission not later than 10 days after the Notice is sent to shareholders.[348] This filing would occur on a new EDGAR submission type which would be created by the Commission. We believe the Notice filing requirement would assist us in overseeing compliance with the rule.

d. Delivery Upon Request

Proposed rule 30e-3 would also require, as a condition to reliance on the rule to transmit shareholder reports electronically, that the fund (or a financial intermediary through which shares of the fund may be purchased or sold) must send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the materials discussed above—*viz.*, the fund's most recent annual and semiannual reports, and the fund's portfolio holdings as of its most recent first and third fiscal quarters—to any person requesting such a copy within three business days after receiving a request for a paper copy.[349] This requirement is intended to allow for investors to

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[346] *See, e.g.*, rule 154 under the Securities Act (permitting householding of prospectuses); rules 30e-1 and 30e-2 under the Investment Company Act (permitting householding of fund shareholder reports); rules 14a-3 and 14c-3 under the Exchange Act (permitting householding of proxy statements and information statements).

[347] *See* proposed rule 30e-3(d)(5).

[348] *See* proposed rule 30e-3(d)(6).

[349] Proposed rule 30e-3(f).

receive shareholder reports and portfolio information in print format, if they so prefer, even if they have consented to electronic transmission without revoking the consent.[350]

e. Prospectuses and Statements of Additional Information Transmitted Under Rule 30e-1(d)

Rule 30e-1(d) under the Investment Company Act permits an open-end management investment company to transmit a copy of its prospectus or statement of additional information in place of its shareholder report, if it includes all of the information that would otherwise be required to be contained in the shareholder report.[351] We recognize that the nature and purpose of the fund prospectus is different from that of fund shareholder reports. Accordingly, at this time, we are not proposing to permit a similar regime for fund prospectus delivery obligations under the Securities Act. As a result, we do not believe that it would be appropriate to permit the transmission of statutory prospectuses in the manner provided under the proposed rule. Therefore, the proposed rule would not be available to a fund seeking to transmit a copy of its currently effective statutory prospectus or statement of additional, or both, as permitted by paragraph (d) of rule 30e-1.[352]

4. Use of Summary Schedule of Investments

Under the current rules, in lieu of providing a complete schedule of portfolio investments as part of the financial statements included in its shareholder report, a fund

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[350] *See, e.g.*, 1995 Release, *supra* note 289 (stating the Commission's belief that "as a matter of policy, where a person has a right to receive a document under the federal securities laws and chooses to receive it electronically, that person should be provided with a paper version of the document if any consent to receive documents electronically were revoked or the person specifically requests a paper copy (regardless of whether any previously provided consent was revoked.").

[351] *See* rule 30e-1(d).

[352] Proposed rule 30e-3(g).

may provide a summary schedule of portfolio investments ("Summary Schedule").[353] Pursuant to Rule 12-12C of Regulation S-X, the Summary Schedule generally must list separately the 50 largest issues and any other issue the value of which exceeded one percent of the net asset value of the fund at the close of the period.[354]

We believe that use of the summary schedule may be unnecessary,[355] and in particular, may be potentially confusing or cumbersome to investors seeking to access the fund's complete portfolio holdings.[356] For these reasons, we are proposing amendments to our registration forms that would restrict funds relying on proposed rule 30e-3 from providing a Summary Schedule in their shareholder reports in lieu of a complete schedule.[357]

5. Related Disclosure Amendments

We are also proposing some related amendments to certain of our rules and forms. First, we are proposing to amend rule 498 under the Securities Act, which concerns the use of a summary prospectus,[358] to require funds relying on proposed rule 30e-3 to

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[353] *See, e.g.*, Instruction 1 to Item 27(b)(1) of Form N-1A (permitting the inclusion of Schedule VI – Summary schedule of investments in securities of unaffiliated issuers under Rule 12-12C of Regulation S-X in lieu of Schedule 1 — Investments of securities of unaffiliated issuers under Rule 12-12 of Regulation S-X.

[354] *See* rule 12-12C, n.3 Regulation S-X [17 CFR 210.12-12C].

[355] For example, a fund using the summary schedule for considerations relating to printing and mailing costs would likely have fewer such concerns if the report is posted on its website in reliance on the proposed rule.

[356] For example, a shareholder consenting to electronic transmission that wishes to view the complete portfolio holdings would, pursuant to the rule as proposed, first receive a notice of the availability of the report, then take the step to access the report on the fund's website, only to have to take a subsequent step to request or otherwise access the full schedule.

[357] *See* proposed amendments to Item 27(b) of Form N-1A; Item 24, Instruction 7 of Form N-2; and Item 28(a), Instruction 7(i) of Form N-3.

[358] *See* rule 498 under the Securities Act [17 CFR 230.498].

include as part of the legend on the cover page of the fund's summary prospectus the website address required to be included in the Notice.[359] As proposed, the website address that leads to shareholder report information could be the same as the website address that leads to prospectus information, provided that the other conditions of each rule are met, but funds would also be permitted to use different website addresses for each type of material and provide both addresses in the legend.[360] This requirement is intended to provide investors an additional reminder of the availability of shareholder report and related portfolio holdings information on the fund's website.

Second, we are proposing to amend rule 498 under the Securities Act and rule 14a-16 under the Exchange Act to include an Initial Statement or Notice that would be required by proposed rule 30e-3 among the materials that are permitted to accompany and have equal or greater prominence than the summary prospectus prepared in reliance on rule 498 and a notice of Internet availability of proxy materials.[361] These amendments are intended to permit a fund's Initial Statement and Notice to be sent with its summary prospectus or notice of Internet availability of proxy materials if the fund wishes to send them in that manner.[362]

6. Requests for Comment

We request comments on our proposal that would permit electronic transmission of shareholder reports.

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[359] *See* rule 498(b)(1)(v)(A) under the Securities Act.

[360] *See id.*

[361] *See* proposed rules 498(f)(2) under the Securities Act and 14a-16(f)(2)(iii) under the Exchange Act.

[362] *See* proposed rule 30e-3(d)(4).

- To what extent are funds currently relying on the Commission's guidance on the use of electronic media to deliver or transmit disclosure documents and other information to shareholders? To what extent have shareholders elected to receive disclosure documents and other information in general, and shareholder reports in particular, through electronic means? In the case of shareholders who have elected electronic delivery of disclosure documents in general, and delivery of shareholder reports in particular, to what extent are those shareholders accessing those materials online? Please provide supportive data to the extent available.
- If proposed rule 30e-3 is adopted, to what extent would funds (i) choose to rely on the rule, and (ii) continue to rely on guidance concerning electronic transmission that we have already issued?
- Would availability of the rule change in any way current industry practices on transmitting shareholder reports electronically? For example, we expect that funds would continue to rely on the Commission's guidance to electronically transmit reports to shareholders who have elected to receive reports electronically, and rely on the rule with respect to shareholders who have not so elected. For administrative or other purposes, would funds discontinue their reliance on the Commission's guidance and instead rely on the rule to transmit reports electronically with respect to their entire shareholder base? If so, why? What impact, if any, would the proposed rule have on the transmission of reports to shareholders of UITs required to transmit reports pursuant to rule 30e-2 under the Investment Company Act? What impact, if any, would the proposed rule have on the transmission of reports to shareholders holding fund shares through financial

intermediaries or other omnibus type arrangements? Should we permit funds that rely on rule 30e-3 to continue to rely on prior electronic transmission guidance for certain of their shareholders? Why or why not?

- If rule 30e-3 is adopted as proposed, in the case of funds relying on the rule to transmit reports electronically to one or more shareholders, would funds nonetheless seek shareholder consent to transmit reports to those shareholders pursuant to the Commission's electronic guidance in lieu of the rule? Why or why not?
- Should we, as we have proposed, allow funds to transmit reports to shareholders electronically by making them accessible on a website? Would investors prefer that these materials be transmitted in this manner? What would be the effect of proposed rule 30e-3 on the ability of investors to access shareholder reports? Would the shareholder report information be more useful or less useful if transmitted in the manner proposed? Would investors be more aware or less aware of the availability of the information if transmitted in reliance on the proposed rule?
- Would any positive or negative effect of the proposed rule on investors be disproportionately greater for certain investors than for others? If so, which investors would be disproportionately affected, to what extent, and how would such effects manifest? What, if any, additional measures could help mitigate any such disproportionate effects? Please provide supportive data to the extent available.

- Rule 30e-3 as proposed contains a number of conditions to be satisfied for reliance on the rule. Are the proposed conditions appropriate? Are there conditions that should be added or are any of the proposed conditions inappropriate? If so, state the conditions and the reasons why.
- The rule as proposed would require that the materials required to be accessible online be publicly accessible, free of charge, at the website specified in the Notice, and does not expressly require that the website be the fund's website. Should the rule require that the materials be accessible at the fund's website? Why or why not?
- What materials should be required to be accessible in order for a fund to rely on the rule? For example, we have proposed that a fund relying on the rule would be required to make accessible the shareholder report, the shareholder report for the prior period, and in the case of a fund that is a management company other than a money market fund or an SBIC, the complete portfolio holdings for the most recent first and third fiscal quarters. Is it appropriate to require funds to post holdings information covering a full year? Should we require information be posted covering a longer period or a shorter period? If so, why? Should money market funds and SBICs relying on the rule be required to post complete portfolio holdings for the first and third quarters? Why or why not?
- The rule as proposed would require that the materials made accessible on the website be presented in a format or formats that are convenient for both reading online and printing on paper. Is the proposed format requirement appropriate? Are there liability or other concerns that would arise in connection with meeting a

fund's obligation to transmit shareholder reports under Section 30(e) and the rules thereunder? Should we instead require that the materials be presented in a format or formats that are human-readable and capable of being printed on paper in human-readable format? Why or why not?

- How soon should each of the materials be required to be accessible, and how long should each be required to remain accessible?
- The proposed rule would contain a safe harbor for instances in which the materials required to be made accessible are not available for a temporary period of time. Is the safe harbor as proposed appropriate, or should it be modified? For example, should the rule be more proscriptive as to the period of time in which action must be taken to resolve any issues?
- Should we require the website on which the proposed rule's required materials are made accessible to incorporate safeguards to protect the anonymity of its visitors? For example, should we require similar conditions to those provided in rule 14a-16 under the Exchange Act relating to Internet availability of proxy materials? Why or why not? If so, what specific requirements should we consider?
- Should the proposed rule require that a shareholder consent to electronic transmission of shareholder reports before a fund begins to rely on the rule? Should we permit funds to obtain implied consent, as proposed, or should we require funds to receive express consent? Are there certain circumstances in which funds should not be permitted to obtain implied consent? For example, if an investor upon opening a new account does not opt-in to electronic delivery of

documents, should the fund be permitted nonetheless to seek to rely on the proposed rule as to that shareholder? Why or why not?

- Under the proposed rule, each series of a registrant offering multiple series would need to obtain separate consent as to a shareholder, regardless of whether consent was obtained from that shareholder by other series offered by that registrant. If a fund has obtained implied consent from a shareholder as to a particular series, and subsequently the shareholder invests in one or more other series offered by the fund, should the fund be required to obtain consent as to those other series, or should the fund be permitted to infer consent as to all series offered by the fund? Why or why not? Should the fund be permitted to infer consent as to only other series offered by the registered investment company, or should the fund be permitted to infer consent as to other funds within the fund complex? What, if any, are the special considerations relating to investors who invest through intermediaries?
- Under the proposed rule, to obtain implied consent as to a shareholder, the fund would be required to transmit to the shareholder an Initial Statement, at least 60 days before it begins to rely on the rule. Are the proposed disclosures for the Initial Statement appropriate? Should a fund be required to provide to a shareholder other disclosures before inferring consent to electronic transmission?
- Should the rule require funds to provide multiple written statements (*i.e.*, in addition to the Initial Statement) prior to inferring consent to electronic transmission? If so, how many additional statements and how long after the Initial Statement should they be provided? What period of time after a fund

transmits the Initial Statement should we permit the fund to infer consent? Is 60 days an appropriate time? Why or why not?

- What methods should shareholders be permitted to use to deny or revoke consent to electronic transmission?
- Should we permit the Initial Statement to be incorporated into, or combined with, one or more other documents? If so, which documents should we permit the Initial Statement to be incorporated into or combined with?
- The rule as proposed would require that the Initial Statement must be sent separately from other types of communications and may not accompany any other document or materials except the fund's current summary prospectus, statutory prospectus, statement of additional information, or Notice of Internet Availability of Proxy Materials. Is this requirement appropriate? Should we permit the Initial Statement to accompany one or more other documents? If so, which documents?
- Should we, as we have proposed for the Notice, permit the Initial Statement to be sent in a "householded" manner?
- Should we require that the Initial Statement not contain any additional information other than that specified in the rule? Why or why not? Absent any requirement specified by rule, what other information would funds generally include in the Initial Statement? For example, would funds provide information on how shareholders could elect to receive the shareholder report and other documents and information electronically by satisfying the conditions contained in the Commission's guidance on use of electronic media relating to notice, access, and evidence of delivery?

- Should the rule permit funds to obtain implied consent from shareholders who have previously revoked consent? If so, should the rule prescribe a minimum period of time after consent was revoked before re-attempting to obtain implied consent from a shareholder? What period should that be and why?
- Should each fund be required to send a shareholder a Notice each time it transmits a shareholder report electronically under the proposed rule? Why or why not?
- We anticipate that the Notice would be sent in paper and mailed to shareholders. Should we permit the Notice to be sent by email if the shareholder has provided an email address? Why or why not? For example, are there any concerns that under such an approach, while a shareholder may have provided an email address (*e.g.*, as part of opening an account), the shareholder may nonetheless neither prefer nor expect to receive documents or other information through that medium? To what extent are funds and intermediaries, pursuant to regulatory requirements or otherwise, maintaining up-to-date e-mail addresses for investors? Would an investor be more likely to view a Notice delivered by one method versus another (*i.e.*, print versus electronically)? Would an investor be more likely to access the related shareholder report and other required materials when notified by one method or the other?
- Are the proposed disclosures for the Notice appropriate? Should we require that the disclosure in the Notice concerning a shareholder's ability to indicate a preference for paper transmission in the future be preceded by an additional bold-face legend or otherwise made more prominent?

- Should we permit the Notice to be incorporated into, or combined with, one or more other documents? If so, which documents should we permit the Notice to be incorporated into or combined with?
- The rule as proposed would require that the Notice must be sent separately from other types of communications and may not accompany any other document or materials except the fund's current summary prospectus, statutory prospectus, statement of additional information, or Notice of Internet Availability of Proxy Materials. Is this requirement appropriate? Should we permit the Notice to accompany one or more other documents? If so, which documents? For example, in the case of a Notice sent to a shareholder for the first time, should we permit or require the Notice to be accompanied with materials explaining the new transmission regime? Why or why not?
- Should we, as proposed, permit funds to either send separate Notices for each fund or send combined Notices for more than one fund held by a particular shareholder, or should the rule require one or the other of those approaches?
- Should we require that the Notice not contain any additional information other than that specified in the rule? Why or why not? Absent any restriction by rule, what other information would funds generally include in the Notice? For example, would funds provide information on how shareholders could elect to receive the shareholder report and other documents and information electronically by satisfying the conditions contained in the Commission's guidance on use of electronic media relating to notice, access, and evidence of delivery?

- In the case of management companies that are not SBICs, should we require such funds to send a notice each time the fund makes accessible its complete portfolio holdings for the first or third fiscal quarters? Why or why not?
- Should we, as proposed, permit the Notice to be sent in a "householded" manner?
- We are proposing that funds would file a form of the Notice with the Commission not later than 10 days after it is sent to shareholders. Is 10 days sufficient to meet this proposed filing requirement, or should some other filing period be required? If so, what time period and why?
- We anticipate that the form of Notice would be filed with the Commission on EDGAR pursuant to a separate EDGAR submission type. Should we instead require that the form of Notice be filed as an exhibit to a report filed with the Commission? For example, should we require that the form of Notice be filed as part of the fund's report on Form N-CSR or Form N-CEN? Why or why not?
- Should we require, as proposed, that funds send a paper copy of a shareholder report upon request? If so, how soon should a fund be required to send the report after receiving a request?
- Should we restrict funds relying on the proposed rule from using the summary schedule of investments? Why or why not? Are there considerations relating to the use of the summary schedule of investments other than those relating to printing and mailing costs that would make the summary schedule an important option for funds to provide portfolio holdings disclosures? Should we restrict funds from using the summary schedule only in reports transmitted pursuant to the rule, and permit funds to use the summary schedule in printed reports that are

mailed to shareholders? Would funds prefer this additional flexibility? Why or why not?

- Are the proposed amendments to rule 498 and the registration forms regarding website availability of documents appropriate? Should we also, for example, specifically require funds relying on the rule to disclose on the cover page or elsewhere in the summary prospectus or statutory prospectus its reliance on the rule and what specific documents are made available on the website?
- To what extent would the proposed rule reduce burdens such as printing and mailing costs borne by funds? Would these burden reductions ultimately accrue to fund shareholders in the form of lower total fund operating expenses? For example, would these reductions ultimately accrue to shareholders in funds with arrangements that permit or limit payments to service providers or intermediaries such as broker-dealers in connection with the printing and mailing of shareholder reports? Please provide supportive data to the extent available.
- In addition to allowing funds to electronically transmit reports to shareholders, should we also consider options for permitting similar delivery of summary or statutory prospectuses? Why or why not?

E. Form N-CEN and Rescission of Form N-SAR

1. Overview

We are proposing to amend the framework by which registered investment companies report census-type information to the Commission by rescinding Form N-SAR

and replacing it with a new form—Form N-CEN.[363] Form N-SAR was adopted by the Commission in 1985 and requires that funds report a wide variety of census information to the Commission, including information relating to a fund's organization, service providers, fees and expenses, portfolio strategies and investments, portfolio transactions, and share transactions. Funds generally must file reports on Form N-SAR semi-annually, except for UITs, which file annually.[364] By contrast, as discussed further below, we are proposing to have all funds file reports on Form N-CEN annually.[365]

In recent years, Commission staff has found that the utility of the information reported on Form N-SAR has become increasingly limited. We believe there are two primary reasons for this limited utility. First, in the past two decades, we have not substantively updated the information reported on the form to reflect new market developments, products, investment practices, or risks. Second, the technology by which funds file reports on Form N-SAR has not been updated and limits the Commission staff's ability to extract and analyze the data reported. Accordingly, we believe that by updating the content and format requirements for census reporting, as discussed below, the Commission will be better able to carry out its regulatory functions, while at the same time reducing burdens on filers.

Proposed Form N-CEN would gather similar census information about the fund industry that funds currently report on Form N-SAR, which could be aggregated and

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[363] We are proposing to rescind Form N-SAR and replace it with a new census reporting form, Form N-CEN, rather than to amend Form N-SAR in order to avoid technical difficulties that could arise with filing reports on an amended Form N-SAR (*e.g.*, difficulties related to changes to filing format and form specifications).

[364] *See* rules 30b1-1 and 30a-1.

[365] *See* proposed amendments to rule 30a-1.

analyzed by Commission staff to better understand industry trends, inform policy, and assist with the Commission's examination program. However, in order to improve the quality and utility of information reported, proposed Form N-CEN would streamline and update information reported to the Commission to reflect current Commission staff information needs and developments in the industry.[366] Additionally, where possible, we have endeavored to exclude items from proposed Form N-CEN that are disclosed or reported pursuant to other Commission forms, or are otherwise available; however, in some limited cases, we are proposing to collect information that may be similarly disclosed or reported elsewhere, but that the staff would benefit from collecting in a structured format.

In order to improve the utility of the information reported to the Commission, we are also proposing that reports on Form N-CEN be structured in an XML format.[367] By requiring reports on Form N-CEN to be filed in XML format, filers will no longer be required to use outdated technology for census reporting. Additionally, requiring reports on Form N-CEN to be filed in an updated structured format will allow reported information to be more efficiently and effectively validated, retrieved, searched, and analyzed through automated means and, therefore, more useful to end users.[368]

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[366] We are proposing to streamline our data collection, in part, through the use of yes/no questions in order to flag certain information for follow-up, if necessary, by Commission staff. *See, e.g.*, Item 11 and Item 30.a of proposed form N-CEN. For example, staff of our Office of Compliance Inspections and Examinations may rely on responses to flag questions in Form N-CEN to indicate areas for follow-up discussion or to request additional information.

[367] The Commission has adopted a number of other forms that are structured in an XML format, including Form N-MFP. Reports on Form N-SAR, by contrast, are filed with an outdated filing application.

[368] *See supra* Part II.A.3 (discussing benefits to the use of XML for reports on Form N-PORT).

2. Who Must File Reports on Form N-CEN

We are proposing to require that all registered investment companies, except face amount certificate companies,[369] file reports on Form N-CEN.[370] Funds offering multiple series would be required to report information in Part C of the form as to each series separately, even if some information is the same for two or more series.[371]

Like Form N-SAR, the sections of Form N-CEN that a fund is required to complete would depend on the type of registrant in order to better tailor the disclosure requirements.[372] All funds would be required to complete Parts A and B, and file any

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[369] Face-amount certificate companies are investment companies which are engaged or propose to engage in the business of issuing face-amount certificates of the installment type, or which have been engaged in in such businesses and have any such certificates outstanding. *See* section 4(1) of the Investment Company Act [15 U.S.C. 80a-4(1)]. Face amount certificate companies are not currently required to file reports on Form N-SAR. *See* General Instruction A to Form N-SAR. Face amount certificate companies would continue to file periodic reports pursuant to section 13 or section 15(d) of the Exchange Act.

[370] *See* proposed amendments to rule 30a-1. Consistent with Form N-SAR, BDCs, which are not registered investment companies, would not be required to file reports on Form N-CEN.

[371] Proposed General Instruction A. Unlike Form N-PORT where separate reports would be filed for each series, registrants would file one report on Form N-CEN covering all series (as is currently done with reports on Form N-SAR). We are proposing this framework for Form N-CEN to help minimize reporting burdens, as much of the information that would be required by Form N-CEN (for example, the information reported pursuant to Parts A and B) would be the same across a fund's various series. We note that Form N-SAR's approach to series information is slightly different than that of proposed Form N-CEN, in that Form N-SAR allows registrants to indicate instances where the information is the same across all series, rather than requiring repetitive information. *See* General Instruction D(8) of Form N-SAR. Unlike Form N-SAR, however, we have sought to organize the information requested in proposed Form N-CEN so that information that is the same for all series is reported in Parts A and B of the form, with Part C, the part of the form that requires each series to respond separately, requesting information that is more likely to differ between series. Accordingly, we anticipate the need to report repetitive information should be limited.

[372] *See* General Instruction A (Rule as to Use of Form N-CEN) to proposed Form N-CEN. As reflected in General Instruction A, registrants would be required to respond to each item in their required sections. To the extent an item in a required section is inapplicable to a registrant, the registrant would respond "N/A" to that item. Registrants would not, however, have to provide responses to items in sections they are not required to fill out.

attachments required under Part G. In addition, funds would complete the following Parts as applicable:

- All management companies, other than SBICs, would complete Part C;
- closed-end funds and SBICs would complete Part D;
- ETFs (including those that are UITs) would complete Part E;[373] and
- UITs would complete Part F.[374]

We request comment on who must file Form N-CEN.

- Should we require any other types of investment companies to file reports on Form N-CEN? For example, should face-amount certificate companies be required to file reports on Form N-CEN?
- Should funds offering multiple series be required to file a report for each series separately, rather than one report covering multiple series, as proposed?

3. Frequency of Reporting and Filing Deadline

Management investment companies currently file reports on Form N-SAR semi-annually,[375] and UITs file such reports annually.[376] To reduce reporting burdens, we are proposing that reports on Form N-CEN be filed annually, regardless of type of filer.[377] Form N-CEN would require census-type information, which in our experience does not

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[373] Certain investment products known as "exchange-traded managed funds" would also be required to complete Part E: of proposed Form N-CEN.

[374] Management companies that are registered on Form N-3 would also complete certain items in Part F as directed by Item 7.c.i of proposed Form N-CEN. *See* General A to proposed Form N-CEN.

[375] *See* rule 30b1-1.

[376] *See* rule 30a-1.

[377] *See* proposed amendments to rule 30a-1.

change as frequently as, for example, portfolio holdings information. Accordingly, we believe that an annual filing requirement would be sufficient for purposes of review by Commission staff, as well as investors and other market participants that might use this information.[378]

We are proposing a filing period of 60 days after the end of the fiscal year for funds to file reports on Form N-CEN.[379] This is the same filing period that management companies currently have to file reports on Form N-SAR.[380] As with Form N-SAR, and having considered the amount and nature of the information that would be requested in proposed Form N-CEN, we continue to believe that a sixty-day filing period would appropriately balance the staff's need for timely information against the time necessary for a fund to collect, verify, and report the required information to the Commission.

Rule 30b1-3 under the Investment Company Act currently requires a fund to file a transition report on Form N-SAR when a fund's fiscal year changes.[381] Because reports

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[378] As discussed above, certain items that are currently reported on Form N-SAR that would be helpful to have updated on a more frequent basis would be moved to proposed Form N-PORT. For example, item 28 of Form N-SAR requires the fund to provide its monthly sales and repurchases of the Registrant's/Series' shares. In order to increase the timeliness of the information reported to the staff for funds flows, certain information relating to monthly flows would be reported on item B.6 of proposed Form N-PORT, if adopted.

[379] Management companies are currently required to file Form N-SAR reports no more than 60 days after the close of their fiscal year and fiscal second quarter. *See* rule 30b1-1 under the Investment Company Act [17 CFR 270.30b1-1]. Accordingly, we anticipate that management companies, which would constitute the largest number of funds filing reports on proposed Form N-CEN, generally will already have processes in place for reporting census-type information at the end of their fiscal years. Thus, we believe requiring reports on proposed Form N-CEN after the close of a fund's fiscal year, rather than calendar year, would be the least burdensome approach for most funds.

[380] *See* rule 30b1-1 under the Investment Company Act [17 CFR 270.30b1-1]; *but see* rule 30a-1 under the Investment Company Act [17 CFR 270.30a-1] (requiring UITs to file annual reports on Form N-SAR no more 60 days after the close of the calendar year).

[381] *See* rule 30b1-3.

on Form N-CEN would be filed annually rather semi-annually, we believe that a rule outlining the requirements for a transition report would no longer be necessary as transition report filing requirements for fiscal year changes involve less complexity in the case of reports required to be filed once a year rather than twice a year. Consequently, we are proposing to rescind rule 30b1-3. We are, however, proposing to require that reports on Form N-CEN not cover a period of more than 12 months.[382] Thus, if a fund changes its fiscal year, a report filed on Form N-CEN may cover a period shorter than 12 months, but would not be permitted to cover a period longer than 12 months or a period that overlaps with a period covered by a previously filed report.[383]

In addition, a fund would be able to file an amendment to a previously filed report on proposed Form N-CEN at any time, including an amendment to correct a mistake or error in a previously filed report.[384] A fund that files an amendment to a previously filed report on the form would provide information in response to all items of Form N-CEN, regardless of why the amendment is filed.[385]

We request comment on the proposed frequency of reporting and proposed reporting deadline:

- Should reports on Form N-CEN be filed more frequently than annually, as proposed? Should we require management companies to file reports on Form N-CEN semi-annually and UITs to file reports annually, as is currently required by

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382 *See* General Instruction C of proposed Form N-CEN.

383 *Id*.

384 *See* General Instruction E of proposed Form N-CEN. Pursuant to section 34(b) of the Investment Company Act, we expect that funds would correct a material mistake in a Form N-CEN report by filing an amendment to that report.

385 *Id*.

Form N-SAR? Are certain information items on Form N-CEN of a nature that they may change frequently or such that more frequent information about them should be reported to the Commission? If so, should any information items in proposed Form N-CEN be reported on proposed Form N-PORT or another form instead? If so, what items and on which forms?

- Consistent with the treatment of Form N-SAR filings for management companies, we are proposing that reports be filed 60 days after the end of the fund's fiscal year. Should we require a different filing period? If so, what period should we require and why? How long would it take funds to collect, verify, and file reports covering the information required by proposed Form N-CEN? Would the burdens associated with reports on proposed Form N-CEN be greater or less than those associated with reports on Form N-SAR?
- We have proposed that reports on Form N-CEN be filed as of the end of the fund's fiscal year. We understand that funds have other filing requirements that are tied to their fiscal-year end. Should we require some other period end date, such as end of calendar year? Should UITs be required to file reports as of the end of their fiscal year, as proposed, or should they file reports as of the end of their calendar year as they currently do with reports on Form N-SAR?
- We are proposing to eliminate rule 30b1-3 under the Investment Company Act. Should we instead retain the rule? Are the general instructions to Form N-CEN, as proposed, sufficiently clear as to the filing requirements when a fund changes its fiscal year end? If not, how should the general instructions be revised, or in the alternative, should a transition period rule be provided in connection with

Form N-CEN? If so, how should a transition period be defined and what deadlines or timeframes should such a rule address?

- Should a fund be required to file an amendment to its Form N-CEN report or file a current report within a certain period of time if previously reported information changes? If so, what types of changes should trigger an amendment requirement? What filing period should be required for such an amendment requirement?

4. Information Required on Form N-CEN

a. Part A — General Information

Part A of Form N-CEN, which would be completed by all funds, would collect information about the reporting period covered by the report. It would require funds to report the fiscal-year end date and indicate if the report covers a period of less than 12 months.[386]

We request comment on the information items proposed to be reported in Part A.

b. Part B — Information About The Registrant

Part B of Form N-CEN, which would also be completed by all funds, would require certain background and other identifying information about the fund. In the case of funds offering multiple series, if the response to an item in Part B of the form differs between series, the fund would be instructed to provide a response for each series, as applicable, and label the response with the name and series identification number of the series to which a response relates.[387] This background information would allow the staff to quickly categorize filers by fund type and will assist with our oversight of funds.

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[386] Item 1 of proposed Form N-CEN.

[387] *See* Instruction to Part B: of proposed Form N-CEN.

Included in this background information would be the fund's name,[388] Investment Company Act filing number,[389] and other identifying information, such as its CIK[390] and LEI.[391] In addition, the form would require the fund's address, telephone number, and public website (if any),[392] and the location of the fund's books and records.[393] While the fund's name, address, and filing number are currently required by Form N-SAR,[394] some of the additional information, such as the fund's CIK, LEI, public website and location of books and records would be new. As discussed in the Form N-PORT section above, information such as the CIK and LEI would assist the Commission with organizing the data received by the Commission and allow the staff to cross-reference the data reported on Form N-CEN with data received from other sources.[395] For tracking purposes, the proposed form would require information relating to whether the filing was the initial or final filing.[396]

As discussed above, funds would be required to include the location of their books and records in reports on proposed Form N-CEN. We note that books and records

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[388] Item 2.a of proposed Form N-CEN.

[389] Item 2.b of proposed Form N-CEN.

[390] Item 2.c of proposed Form N-CEN.

[391] Item 2.d of proposed Form N-CEN; *see also supra* note 43 (discussing comment letters received on the FSOC Notice supporting the use of LEIs).

[392] Item 3 of proposed Form N-CEN.

[393] Item 4 of proposed Form N-CEN.; *see also infra* notes 397-399 and accompanying text.

[394] Items 1 and 2 of Form N-SAR.

[395] *See supra* Part II.A.2.a. As discussed above, commenters to the FSOC Notice expressed support for the regulatory acceptance of LEI identifiers. *See supra* note 43.

[396] Item 5 of proposed Form N-CEN.

information is currently required by fund registration forms;[397] however, this information is not filed with us in a structured format. We believe that having books and records information in a structured format would increase our efficiency in preparing for exams as well as our ability to identify current industry trends and practices and, thus, we are proposing to include this information in proposed Form N-CEN.[398] In addition, so as not to create unnecessary burdens, we are proposing to amend Forms N-1A, N-2, N-3, N-4, and N-6 to exempt funds from those forms' respective books and records disclosure requirements if the information is provided in a fund's most recent report on proposed Form N-CEN.[399]

Similar to Form N-SAR,[400] Form N-CEN would require information regarding whether the fund is part of a "family of investment companies." The form, which would include a substantially similar definition as Form N-SAR,[401] would define a "family of investment companies" to mean, except with respect to insurance company separate accounts, any two or more registered investment companies that (i) share the same investment adviser or principal underwriter; and (ii) hold themselves out to investors as

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397 *See* Item 33 of Form N-1A, Item 32 of Form N-2, Item 36 of Form N-3, Item 30 of Form N-4, and Item 31 of Form N-6.

398 Additionally, by including books and records information in Form N-CEN, we may receive more frequently updated books and records information from closed-end funds. Closed-end funds do not update their registration statements as regularly as open-end funds and, thus, the information regarding their books and records may not always be up-to-date.

399 Funds that have not yet filed a report on proposed Form N-CEN would have to continue to include this information in their registration statement filings.

400 Items 19, 94 and 116 of Form N-SAR; s*ee also* General Instruction H of Form N-SAR (defining "family of investment companies").

401 *See id.*; *see also* instruction 1 to Item 17 of Form N-1A.

related companies for purposes of investment and investor services.[402] This item would assist Commission staff with analyzing multiple funds across the same family of investment companies.

Similar to Form N-SAR, proposed Form N-CEN would also require the fund to provide its classification (*e.g.*, open-end fund, closed-end fund).[403] In addition, unlike Form N-SAR, the proposed form would specifically ask whether the fund issues a class of securities registered under the Securities Act.[404] These questions are intended to elicit background information on the fund, which will assist us in our monitoring and oversight functions (for example, identifying those funds that have not issued securities registered under the Securities Act).

Under proposed Form N-CEN, a management company would report information about its directors, including each director's name, whether they are an "interested person" (as defined by section 2(a)(19) of the Investment Company Act), and the Investment Company Act file number of any other registered investment company for

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[402] Instruction to Item 6 of proposed Form N-CEN. The instruction, like the definition of "family of investment companies" in Form N-SAR, would also clarify that insurance company separate accounts that may not hold themselves out to investors as related companies (products) for purposes of investment and investor services should consider themselves part of the same family if the operational or accounting or control systems under which these entities function are substantially similar. *See* General Instruction H to Form N-SAR.

[403] Item 7 of proposed Form N-CEN; *see also* Items 5, 6, 27, 58, 59 and 117 of Form N-SAR. If the registrant is an open-end fund, proposed Form N-CEN would also require information on the total number of series of the registrant and, if a series of the registrant was terminated during the reporting period, information regarding that series. Item 7.a.i-Item 7.a.ii of proposed Form N-CEN. In addition, registrants that indicate they are management companies registered on Form N-3 are directed by Item 7 to respond to certain additional items in Part F of the form that relate to insurance company separate accounts. Item 7.c.i of proposed Form N-CEN.

[404] Item 8 of proposed Form N-CEN.

which they serve as a director.[405] Although this information is reported in a management company's Statement of Additional Information and provided in annual reports to shareholders, providing this information to the Commission in a structured format will allow the Commission and other potential users to sort and analyze the data more efficiently.[406] In addition, the fund would be required to provide the chief compliance officer's ("CCO's") name, CRD number (if any), address, and phone number,[407] as well as indicate if the CCO has changed since the last filing.[408] If the fund's CCO is compensated or employed by any person other than the fund, or an affiliated person of the fund, for providing CCO services, the fund would also be required to report the name and Employer Identification Number of the person providing such compensation.[409] Although some funds provide information relating to their CCO in their registration statements, not all funds do.[410] This new requirement would provide staff with information on all fund CCOs and would allow the staff to contact a fund's CCO directly.

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405 Item 9 of proposed Form N-CEN.

406 *See, e.g.*, Items 17 and 27(b)(5) of Form N-1A.

407 Because we expect that funds will provide the CCO's direct phone number in response to this information request, the CCO's phone number would be a non-public field in all Form N-CEN filings.

408 Item 10 of proposed Form N-CEN

409 Item 10.j of proposed Form N-CEN.

410 *See, e.g.*, Item 17 of Form N-1A (requesting information regarding fund officers). For example, Form N-1A defines the term "officer" to mean "the president, vice-president, secretary, treasurer, controller, or any other officer who performs policy-making functions." It is our understanding that in some fund complexes, the CCO does not fit within the category of officers covered by this definition (*i.e.*, the CCO does not perform a policy-making function), and therefore, information as to their CCO is not provided pursuant to the item.

Part B would also include an item regarding matters that have been submitted to a vote of security holders during the relevant period.[411] Information regarding submissions of matters to a vote of securities holders is currently reported in Form N-SAR by management companies in the form of an attachment with multiple reporting requirements.[412] In order to alleviate the burden on filers, we are proposing to reduce the information to be reported regarding votes of security holders to a yes/no question that is primarily meant to allow staff to quickly identify funds with such votes, so that they can follow up as appropriate, such as by reviewing more detailed information required by other filings.[413] Like Form N-SAR, the proposed form would also include an item relating to material legal proceedings during the reporting period.[414]

Form N-SAR currently requires management companies to report a number of data points relating to fidelity bond and errors and omissions insurance policy coverage.[415] In order to limit the number of items to those most useful to the Commission staff and reduce burdens on filers, we are proposing to limit this request to

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411 *See* Item 11 of proposed Form N-CEN.

412 *See* Item 77.C of Form N-SAR; *see also* Instruction to Specific Items for Item 77C.

413 This information request would apply to UITs as well as management companies. The Form N-SAR requirement applies only to management companies. *See id.* We believe it is important for the Commission to have information for all registered investment companies on matters submitted for security holder vote in order to assist us in our oversight and examination functions.

414 Item 12 of proposed Form N-CEN. As in Form N-SAR Item 77.E, if there were any material legal proceedings, or if a proceeding previously reported had been terminated, the registrant would file an attachment as required by Part G: of proposed Form N-CEN. *See* Item 79.a.i of proposed Form N-CEN. We note that Form N-CEN, unlike Form N-SAR, would require UITs to respond to the information request related to material legal proceedings. For the same reasons discussed above with respect to matters submitted for security holder vote, we believe it is important to have information on material legal proceedings of all registered investment companies. *See supra* n.413.

415 Form N-SAR Items 80-85 and 105–110.

two separate items in Form N-CEN. One item would ask if any claims were filed under the management company's fidelity bond and the aggregate dollar amount of any such claims.[416] The other item would ask if the management company's officers or directors are covered under any directors and officers/errors and omissions insurance policy and, if so, whether any claims were filed under the policy during the reporting period with respect to the registrant.[417] These questions will help alert Commission staff to insurance claims made by the fund or its officers and directors as a result of legal issues related to the fund.[418]

In order to better understand instances when funds receive financial support from an affiliated entity, our proposal would also require new information regarding the provision of such financial support.[419] We recently adopted disclosure requirements relating to fund sponsors' support of money market funds as part of our money market reform amendments in 2014, including a new requirement that money market funds file reports on Form N-CR disclosing, among other things, the receipt of financial support. [420] As with money market funds, we believe that it is important that the Commission understand the nature and extent that a fund's sponsor provides financial support to a fund, and are therefore proposing to extend this requirement to all funds that would file reports on Form N-CEN. Although we believe it is an infrequent practice, based on staff

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[416] Item 13 of proposed Form N-CEN; *cf.* Item 83 of Form N-SAR.

[417] Item 14 of proposed Form N-CEN; *cf.* Item 85 of Form N-SAR.

[418] For example, a fund is required to provide and maintain a fidelity bond against larceny and embezzlement, which in general covers each officer and employee of the fund who has access to securities or funds. *See* rule 17g-1(a) under the Investment Company Act [17 CFR 270.17g-1].

[419] Item 15 of proposed Form N-CEN.

[420] *See* Money Market Fund Reform 2014 Release, *supra* note 13.

experience, non-money market funds have received sponsor support in the past and we believe this item would allow Commission staff to readily identify any funds that have received such support for further analysis and review, as appropriate. For consistency, Form N-CEN would include a substantially similar definition of "financial support" as provided by Form N-CR.[421] In addition, the definition in Form N-CEN would also explicitly exclude certain routine transactions from the definition of financial support, as is the case for money market funds.[422] If the fund received financial support, it would also be required to provide more detailed information in the form of an attachment as required by Part G of Form N-CEN.[423]

In addition, Form N-CEN would include a new item requiring reporting as to whether the fund relied on orders from the Commission granting the fund an exemption from one or more provisions of the Investment Company Act, Securities Act or Securities Exchange Act during the reporting period.[424] Funds would identify any such order by release number.[425] We are proposing to collect this information in a structured format to better monitor fund reliance on exemptive orders, which will assist us with our oversight functions.

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421 *See* Instruction to Item 15 of proposed Form N-CEN; *see also* Part C of Form N-CR.

422 *See id.*

423 Item 79.a.ii of proposed Form N-CEN. This requirement would not apply to money market funds, as money market funds currently provide this information through reports on Form N-CR.

424 Item 16 of proposed Form N-CEN. Form N-SAR currently requires funds to attach information required to be reported on Form N-1Q pursuant to an existing exemptive order. *See* Instructions to Specific Items 77P and 102O of Form N-SAR. Form N-CEN would require the fund to file as an attachment any information required to be filed pursuant to exemptive orders issued by the Commission and relied on by the fund. Instruction to Item 79.a.vi of proposed Form N-CEN.

425 *See* Item 16.a.i of proposed Form N-CEN.

As with Form N-SAR,[426] proposed Form N-CEN would require identifying information for the fund's principal underwriters[427] and independent public accountants,[428] including, as applicable, name, SEC file number, CRD number, PCAOB number, LEI (if any), state or foreign country, and whether a principal underwriter was hired or terminated or if the independent public accountant changed since the last filing.[429] If the independent public accountant changed since the last filing, the fund would have to provide a detailed narrative attachment to Form N-CEN.[430]

We are proposing to include for all funds several other accounting and valuation related items that are currently required for management companies by Form N-SAR, and that provide important information to the Commission regarding possible accounting and valuation issues related to a fund. These items include a question relating to material changes in the method of valuation of the fund's assets.[431] However, unlike reports on Form N-SAR, proposed Form N-CEN would not require a separate attachment detailing the circumstances surrounding a change in valuation methods.[432] Instead, to facilitate

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426 Items 11, 13, 77.K, 91, 102.J, 114, 115 of Form N-SAR.

427 Item 17 of proposed Form N-CEN.

428 Item 18 of proposed Form N-CEN.

429 Item 17 and Item 18 of proposed Form N-CEN.

430 Item 79.a.iii of proposed Form N-CEN.

431 Item 21 of proposed Form N-CEN. Valuation methodologies are approved by fund directors for use by funds to determine, in good faith, the fair value of portfolio securities (and other assets) for which market quotations are not readily available. For example, valuation methodology changes may include, but are not limited to, changing from use of bid price to mid price for fixed income securities or changes in the trigger threshold for use of fair value factors on international equity securities.

432 *See* Item 77.J and Item 102.I of Form N-SAR. Also unlike Form N-SAR, this requirement would apply to UITs as well as management investment companies. We believe it is important for the Commission to have information on accounting and valuation for all

review of this information in a structured format, our proposal would include specific items in the form itself, including the date of change, explanation of change, type of investment, statutory or regulatory basis for the change, and the fund(s) involved.[433] We would also carry over to proposed Form N-CEN the requirement from Form N-SAR[434] that the fund identify whether there have been any changes in accounting principles or practices, and, if any, to provide more detailed information in a narrative attachment to the form.[435]

Form N-CEN would also require, like Form N-SAR, that management companies, other than SBICs, file a copy of their independent public accountant's report on internal control as an attachment to their reports on the form.[436] However, Form N-CEN would also include a new question that asks whether the report on internal control

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registered investment companies in order to assist us in our oversight and examination functions.

433 *Compare* Item 77.J of Form N-SAR *with* Item 21 of proposed Form N-CEN. An instruction to Item 21 of proposed Form N-CEN would clarify that we do not expect responses to this item to include changes to valuation techniques used for individual securities (*e.g.*, changing from market approach to income approach for a private equity security). Form N-SAR does not elaborate on the type of information it is seeking by asking for changes in the method of valuation of the registrant's assets. We are proposing to include this instruction to provide clarity for filers and because we believe that responding to Item 21 of proposed Form N-CEN for individual securities may be overly burdensome for filers.

434 *See* Item 77.L and Item 102.K of Form N-SAR.

435 Item 22 and Item 79.a.v of proposed Form N-CEN. Like the information requested regarding changes in valuation methods, Form N-SAR only requests information from management companies regarding changes in accounting principles and practices. Unlike Form N-SAR, Form N-CEN would require this information from UITs as well, for the same reasons as discussed above with respect to changes in valuation methods. *See supra* n.432

436 *See* Item 77.B of Form N-SAR; Item 79.a.iv of proposed Form N-CEN. As noted above, management companies (other than SBICs) are currently required to file a copy of the independent public accountant's report on internal control with their reports on Form N-SAR. We continue to believe that a copy of the management company's report on internal control should be filed with the Commission and thus are proposing to carry over the filing requirement to Form N-CEN.

found any material weaknesses.[437] Form N-CEN would also contain a new requirement that the fund disclose if the certifying accountant issued an opinion other than an unqualified opinion with respect to its audit of the fund's financial statements.[438] These questions will elicit information on potential accounting issues identified by a fund's accountant.

Unlike Form N-SAR, proposed Form N-CEN would also include an item relating to whether, during the reporting period, an open-end fund made any payments to shareholders or reprocessed shareholder accounts as a result of an NAV error.[439] Proposed Form N-CEN would also require information from management companies regarding payments of dividends or distributions that required a written statement pursuant to section 19(a) of the Investment Company Act and rule 19a-1 thereunder.[440] These questions will assist the staff in monitoring valuation of fund assets and the calculation of the fund's NAV, as well as compliance with distribution requirements under section 19(a) and rule 19a-1.

We request comment on the proposed information items to be reported in Part B:

- Should any additional information regarding the fund be requested? Should any of the information that would be requested by proposed Form N-CEN be

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[437] Item 19 of proposed Form N-CEN.

[438] Item 20 of proposed Form N-CEN.

[439] Item 23 of proposed Form N-CEN.

[440] Item 24 of proposed Form N-CEN. Section 19(a) of the Investment Company Act generally prohibits a fund from making a distribution from any source other than the fund's net income, unless that payment is accompanied by a written statement that adequately discloses the source or sources of the payment. *See* 15 U.S.C. 80a-19(a). Rule 19a-1 under the Investment Company Act specifies the information required to be disclosed in the written statement. *See* 17 CFR 270.19a-1; *see also* 2013-11 IM Guidance Update, *supra* note 289.

excluded? Should any of the information requested for all Registrants be limited to only certain Registrants?

- Should any other identifying number other than file number and LEI be requested?
- Should another definition or term be used to capture affiliations across related funds rather than "family of investment companies"? Should a broader term, such as "fund complex" as defined by instruction 1(b) to Item 17 of Form N-1A, be used instead? If so, why would a broader definition be better?
- Should Form N-CEN request any additional information concerning the board of directors or individual directors? For example, should Form N-CEN request information about the length of service of directors?
- Should Form N-CEN request information regarding a fund's CCO, as proposed? Should we, as proposed, make the CCO's phone number a non-public data field on all Form N-CEN filings? Are there any privacy concerns with the other information that would be requested? Would these concerns still exist if the information is reported in a non-public data field? Are there any other concerns with the information that would be requested? Is there other information we should request in lieu of information that presents such concerns?
- The current proposal eliminates Form N-SAR's attachment regarding matters submitted to a vote of security holders. Should we retain this requirement in Form N-CEN? Why or why not? Are there any costs to eliminating Form N-SAR's attachment in Item 77C in favor of yes/no type questions? Should the item regarding votes submitted to security holders apply to UITs?

- We request comment on Item 12 of proposed Form N-CEN. Should this item apply to UITs? Should "legal proceedings" be defined? Should it include administrative, mediated, or arbitrated matters? Are there any other litigation matters that should be deemed inherently material besides those enumerated in the instructions to the item? Is there any additional information that should be requested regarding material legal proceeding matters?
- Should Form N-CEN request information about the fidelity bond beyond what has been proposed (*e.g.*, bond amount, the cost of the bond, or the number of insured persons)? Should any additional information regarding claims filed or that could have been filed under the fidelity bond be requested? For example, should dates of claims filed or that could have been filed be requested? Should the nature of the claim be disclosed?
- Is the term "errors and omissions insurance" clear or should the form include a definition? In addition to requesting information on whether any errors and omissions insurance claim was made as proposed, should dates of insurance claims and amounts of claims be requested? Should Form N-CEN permit funds to exclude the advancement of expenses under a policy from disclosure as a claim?
- The definition of "financial support" in proposed Form N-CEN would include a non-exclusive list of examples of actions that would (and would not) be deemed "financial support." Money market funds currently report this information in reports on Form N-CR. Should the definition in proposed Form N-CEN be further expanded or limited from our definition in Form N-CR, and if so, how and

why? For example, should we include a requirement to report information relating to inter-fund lending? Should we require non-money market funds to report receipt of financial support on a more timely basis? For example, should we require non-money market funds to file reports on Form N-CR or a similar form if they receive financial support?

- Should any additional information concerning exemptive or other orders be requested?
- We also considered whether to require funds to disclose reliance on no-action letters. If we were to require this information, should we limit it to certain no-action letters and, if so, which ones?
- Should we request additional information regarding fund accounting and valuation? If so, what information? Should the items relating to changes in valuation methods and changes in accounting principles and practices apply to UITs, as proposed?
- We request comment on Items 23 and 24 of proposed Form N-CEN. Should we request information regarding NAV errors and/or dividend and distribution payments that required a written statement pursuant to section 19(a) and rule 19a-1? Why or why not? Is there additional information we should request?

c. Part C — Items Relating to Management Investment Companies

i. Background and Classification of Funds

Part C of Form N-CEN would be completed by management investment companies other than SBICs. For management companies offering multiple series, this

information would be completed separately as to each series.[441] The proposed information requirements in this section are intended to provide the Commission and its staff with background information on the fund industry and to assist us in meeting our legal and regulatory requirements, such as requirements under the Paperwork Reduction Act. Additionally, certain demographic information would allow the Commission to better identify particular types of management companies for monitoring and analysis if, for example, an issue arose with respect to a particular fund type.

Similar to Form N-SAR, proposed Form N-CEN would include general identifying information on management companies and any series thereof, including the full name of the fund, the fund's series identification number and LEI, and whether it is the fund's first time filing the form.[442] Unlike Form N-SAR, we are proposing to request specific information on the classes of open-end management companies, including information relating to the number of classes authorized, added, and terminated during the relevant period.[443] Form N-CEN would also include a new requirement to specifically provide identifying information for each share class outstanding, including the name of the class, the class identification number, and ticker symbol.[444]

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441 General Instruction A to proposed Form N-CEN.

442 Item 25 of proposed Form N-CEN; *see also* supra n.43 (discussing comment letters received on the FSOC Notice supporting the use of LEIs). The proposed requirements relating to the name of the fund and if this is the first filing with respect to the fund are currently required by Form N-SAR. *See* Items 3 and 7.C of Form N-SAR.

443 Item 26.a–Item 26.c of proposed Form N-CEN.

444 Item 26.d of proposed Form N-CEN.

Pursuant to proposed Form N-CEN, a management company also would be required to identify if it is any of the following types of funds:[445] ETF or exchange-traded managed fund ("ETMF");[446] index fund;[447] fund seeking to achieve performance results that are a multiple of a benchmark, the inverse of a benchmark, or a multiple of the inverse of a benchmark; interval fund;[448] fund of funds;[449] master-feeder fund;[450] money

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[445] Item 27 of proposed Form N-CEN. As discussed herein, many of the types of funds listed in Item 27 are defined in proposed Form N-CEN. With the exception of "index fund" and "money market fund," these terms are not currently defined in Form N-SAR. *See* General Instruction H and Item 69 of Form N-SAR.

[446] For purposes of reporting on proposed Form N-CEN, we propose to define "exchange-traded fund" as an open-end management investment company (or series or class thereof) or UIT, the shares of which are listed and traded on a national securities exchange at market prices, and that has formed and operates under an exemptive order under the Investment Company Act granted by the Commission or in reliance on an exemptive rule under the Act adopted by the Commission. We also propose to defined "exchange-traded managed fund" as an open-end management investment company (or series or class thereof) or UIT, the shares of which are listed and traded on a national securities exchange at NAV-based prices, and that has formed and operates under an exemptive order under the Investment Company Act granted by the Commission or in reliance on an exemptive rule under the Act adopted by the Commission. General Instruction F of proposed Form N-CEN. We believe these are appropriate definitions as they are similar to the one used for determining the applicability of ETF registration statement disclosure requirements for open-end funds. *See* General Instruction A to Form N-1A. Currently, all ETFs and exchange-traded managed funds rely on relief from certain provisions of the Investment Company Act that is granted by Commission order. *See* ETF Proposing Release, *supra* note 5; Eaton Vance Management, et al.; Notice of Application, Investment Company Act Release No. 31333 (Nov. 6, 2014) [79 FR 67471 (Nov. 13, 2014)] (Notice); Eaton Vance Management, et al.; Order, Investment Company Act Release No. 31361 (Dec. 2, 2014) (Order). The Commission has, however, proposed to codify the exemptive relief previously granted to ETFs by order. *See* ETF Proposing Release, *supra* note 5 (proposing rule 6c-11).

[447] For purposes of reporting on proposed Form N-CEN, we propose to define "index fund" as an investment company, including an ETF, which seeks to track the performance of a specified index. *See* Instruction 2 of Item 27 of proposed Form N-CEN. We believe this is an appropriate definition as it is substantively similar to the definition of "index fund" in Form N-SAR, but also takes into account the emergence of ETFs. *See* Instruction to Item 69 of Form N-SAR. Additionally, the proposed definition is largely similar to the definition of "index fund" in rule 2a19-3 under the Investment Company Act. *See* 17 CFR 270.2a19-3 (referring to an index fund for purposes of the rule as a fund that has "an investment objective to replicate the performance of one or more broad-based securities indices….").

[448] For purposes of reporting on proposed Form N-CEN, we propose to define "interval fund" as a closed-end management company that makes periodic repurchases of its shares pursuant to

market fund; target date fund;[451] and underlying fund to a variable annuity or variable life insurance contract. ETFs and ETMFs, index funds and master-feeder funds would also be required to provide the additional information discussed below.[452]

First, proposed Form N-CEN would require a management company to further indicate if it is an ETF or an ETMF.[453] Second, index funds would be required to report certain standard industry calculations of relative performance. In particular, index funds would be required to report a measure of the difference between the index fund's total

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rule 23c-3 under the Investment Company Act. *See* Instruction 3 of Item 27 of proposed Form N-CEN. We believe this is an appropriate definition because the term "interval fund" is commonly used to refer to funds that rely on rule 23c-3. *See* 17 CFR 270.23c-3.

[449] For purposes of reporting on proposed Form N-CEN, we propose to define "fund of funds" as a fund that acquires securities issued by another investment company in excess of the amounts permitted under section 12(d)(1)(A) of the Investment Company Act. *See* 15 U.S.C 80a-12(d)(1)(A); Instruction 1 of Item 27 of proposed Form N-CEN. We believe this is an appropriate definition because "funds of funds" is a term typically used to refer to funds that invest in other funds beyond the limits of the Investment Company Act. Additionally, the proposed definition of "fund of funds" largely tracks FINRA's definition of "fund of funds" in its rules. *See* FINRA Code of Conduct Rule 2830(b)(11) (defining "fund of funds").

[450] For purposes of reporting on proposed Form N-CEN, we propose to define "master-feeder fund" as a two-tiered arrangement in which one or more funds holds shares of a single fund in accordance with section 12(d)(1)(E) of the Investment Company Act. *See* Instruction 4 of Item 27 of proposed Form N-CEN. We believe this is an appropriate definition as it is the same definition as used for purposes of Form N-1A. *See* General Instruction A to Form N-1A.

[451] For purposes of reporting on proposed Form N-CEN, we propose to define "target date fund" as an investment company that has an investment objective or strategy of providing varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures that changes over time based on an investor's age, target retirement date, or life expectancy. *See* Instruction 5 of Item 27 of proposed Form N-CEN. We believe this is an appropriate definition as it is the same definition as proposed by the Commission in our 2010 proposing release relating to target date funds. *See* Investment Company Advertising Release, *supra* note 6.

[452] *See* Item 27.a; Item 27.b; and Item 27.f of proposed Form N-CEN.

[453] *See* Item 27.a.i and Item 27.a.ii.

return during the reporting period[454] and the index's return both before and after fees and expenses—commonly called the "tracking difference"—[455] and also a measure of the volatility of the day-to-day tracking difference over the course of the reporting period—commonly called the fund's "tracking error."[456]

Specifically, the proposed tracking difference data item would equal the annualized difference between the index fund's total return during the reporting period and the index's return during the reporting period, and the proposed tracking error data item would equal the annualized standard deviation of the daily difference between the index fund's total return and the index's return during the reporting period.[457] Reporting of these measures will help data users, including the Commission, investors, and other potential users, evaluate the degree to which particular index funds replicate the

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[454] With respect to index funds that are ETFs, we would expect a fund to use its NAV-based total return, rather than market-based total return, in responding to Items 27.b.i. and ii.

[455] Item 27.b.i of proposed Form N-CEN. The tracking difference is the return difference between the fund and the index it is following, annualized. Johnson, Ben, et al., On the Right Track: Measuring Tracking Efficiency in ETFs, Morningstar ETF Research, at 29 (Feb. 2013), *available at* http://media.morningstar.com/uk/MEDIA/Research_Paper/Morningstar_Report_Measuring_Tracking_Efficiency_in_ETFs_February_2013.pdf ("Morningstar Paper"), at 29. Thus, tracking difference = $(1 + R_{NAV} - R_{INDEX})^{1/N} - 1$, where R_{NAV} is the total return for the fund over the reporting period, R_{INDEX} is the total return for the index for the reporting period, and N is the length of the reporting period in years. N will equal to 1 if the reporting period is the fiscal year. *Id.*

[456] *See* Item 27.b.ii of proposed Form N-CEN. Tracking error is commonly understood as the standard deviation of the daily difference in return between the fund and the index it is following, annualized. Morningstar Paper, *supra* note 455, at 29. Thus, tracking error = std $(R_{NAV} - R_{INDEX}) \times \sqrt{n}$, where R_{NAV} is the daily return for the fund, R_{INDEX} is the daily return for the index, std(·) represents the standard deviation function, and n is the number of trading days in the fiscal year. *Id.*

[457] *See* Morningstar Paper, *supra* note 455, at 29.

performance of the target index.[458] In addition, tracking difference and tracking error before fees and expenses[459] would allow data users to better understand the effect of factors other than fees and expenses on the degree to which the index fund replicates the performance of the target index.[460]

Finally, master funds would be required to provide identifying information with respect to each feeder fund, including information on unregistered feeder funds (*i.e.*, feeder funds not registered as investment companies with the Commission), such as offshore feeder funds.[461] Similarly, a feeder fund would provide identifying information of its master fund.[462]

Proposed Form N-CEN would also require the management company to report if it seeks to operate as a non-diversified company, as defined in section 5(b)(2) of the Investment Company Act.[463] Form N-SAR, however, asks if the management company was a diversified investment company at any time during the period or at the end of the reporting period. [464] We are proposing to require reporting on the non-diversified status of a management company, rather than the diversified status, because it is less common

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458 *See* Morningstar Paper, *supra* note 455, at 5. We believe this information would help data users understand which funds are best tracking their target indices and could highlight outlier funds.

459 *See* Item 27.b.i.1 and Item 27.b.ii.1 of proposed Form N-CEN.

460 *See* Morningstar Paper, *supra* note 455, at 9.

461 Item 27.f.i of proposed Form N-CEN.

462 Item 27.f.ii of proposed Form N-CEN.

463 Item 28 of proposed Form N-CEN.

464 *See* Item 60 of Form N-SAR.

for funds to be non-diversified.[465] Additionally, the question in proposed Form N-CEN is forward looking rather than backward looking as in Form N-SAR. This change is intended to include as part of the universe of non-diversified funds those funds that seek to operate as non-diversified companies even if they should happen to meet the definition of a "diversified company" as of the end of a particular reporting period.[466] We believe this change will allow our staff to more accurately pinpoint the universe of non-diversified funds and, thus, better able the staff to assist us in our analysis and inspection functions.

We request comment on the Part C questions relating to the fund's background and classification:

- Should additional identifying information be requested with regard to series or classes of management investment companies? Should any of the information proposed to be included in proposed Form N-CEN be excluded?
- We request comment on our list of types of fund. Are there any types of funds that we should add to or remove from the list? If so, which ones and why? Should we include additional categories based on investment strategy, as proposed? If so, which categories? Are the definitions in proposed Form N-CEN of the type of funds listed appropriate? Should any different definitions be used for types of funds? If so, what definitions and why? Are any terms that are not

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[465] Based on Form N-SAR data between July 2014 – December 2014, 74% of funds were diversified during the reporting period.

[466] For example, if a fund generally operates as a non-diversified fund, but as a result of market conditions or other reasons, happens to meet the definition of "diversified fund" as of the end of the reporting period, it would still be required to indicate that it was a non-diversified fund for purposes of this item.

defined sufficiently clear or should we provide definitions? If so, what terms and what definitions?

- We request comment on the information to be required for index funds. Should we require the difference between the fund's total return during the reporting period and the index's return during the reporting period? Is this a meaningful methodology? Is there a better methodology for calculating tracking difference or tracking error?
- Should the form solicit information about the intent of a management company to operate as a non-diversified fund or should it request information about past operations during the reporting period?

ii. Investments in Certain Foreign Corporations

We are also proposing to require a management company to identify if it invests in a controlled foreign corporation for the purpose of investing in certain types of instruments, such as commodities, including the name and LEI of such corporation, if any.[467] As discussed *supra* Part II.A.2.b, some funds use CFCs for making certain investments, particularly in commodities and commodity-linked derivatives, often for tax purposes. Information regarding assets invested in a controlled foreign corporation for the purpose of investing in certain types of instruments would provide investors greater insight into special purpose entities, such as CFCs, that may have certain legal, tax, and country-specific risks associated with them. Combined with the information that we are proposing to collect in Form N-PORT, Commission staff would likewise benefit from

[467] Item 29 of proposed Form N-CEN. An instruction to Item 29 of proposed Form N-CEN would define "controlled foreign corporation" as having the meaning provided in section 957 of the Internal Revenue Code.

this information by better understanding the use of CFCs and other similar entities, which could allow for more efficient collaboration with foreign regulatory authorities to the extent the Commission may need books and records or other information for specific funds or general inquiries related to CFCs.

We request comment on the Part C questions relating to the fund's investments in certain foreign corporations:

- Should we request additional information on whether the management company invested in a foreign corporation or subsidiary, including CFCs? For example, should we request information on the types of investing activities the CFCs engage in or certain balance sheet items from the CFC?

iii. Securities Lending

As discussed above, we are proposing that funds provide certain securities lending information in reports on Form N-PORT to help inform the Commission, investors and other market participants about the scale of securities lending activity by funds and their collateral reinvestments.[468] Additionally, we are proposing to require that funds include in their financial statements certain information concerning their income and expenses associated with securities lending activities in order to increase the transparency of this information to investors and other potential users.[469] We believe, however, that some important information concerning securities lending activity by funds should be reported in a structured format, but on a less frequent basis than reports on proposed Form N-PORT. In this regard, we believe an annual reporting requirement on Form N-CEN

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[468] *See supra* Parts II.A.2.d and II.A.2.g.v.

[469] *See* proposed rule 6-03(m) of Regulation S-X.; *see also supra* Parts II.C.3 and II.C.5.

may yield sufficiently timely data and may more appropriately balance the requirements' benefits with their associated costs than would additional monthly reporting requirements on Form N-PORT.

Accordingly, we propose to require that each management company report annually on new Form N-CEN, in addition to whether it is authorized to engage in securities lending transactions and whether it loaned securities during the reporting period,[470] information about the fees associated with securities lending activity and information about the management company's relationship with certain securities-lending-related service providers. First, we propose to require that management companies that loaned any securities during the reporting period disclose certain information that would illuminate the commonality of borrower default. Specifically, we propose to require that those management companies disclose annually whether any borrower of securities had defaulted on its obligations to the management company to return loaned securities or return them on time in connection with a security on loan during that period.[471]

Under proposed Form N-CEN, management companies would also be required to disclose whether a securities lending agent or any other entity indemnifies the fund against borrower default on loans administered by the agent and certain identifying information about the entity providing indemnification if not the securities lending agent.[472] Together, these reporting requirements would yield data that would allow the

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[470] Item 30.a–Item 30.b of proposed Form N-CEN.

[471] Item 30.b.i of proposed Form N-CEN.

[472] Item 30.c.iv and Item 30.c.v.1–Item 30.c.v.2 of proposed Form N-CEN.

Commission, investors, and other potential users to assess the counterparty risks associated with borrower default in the securities lending market and the extent to which those risks are mitigated by—or concentrated in—third parties that provide indemnification against default.[473]

Because management companies sometimes engage external service providers as securities lending agents or cash collateral managers, we believe that some of the risks associated with securities lending activities by management companies could be impacted by these service providers and the nature of their relationships with the management companies and one another. Accordingly, we propose to require that management companies report some basic identifying information about each securities lending agent and cash collateral manager.[474] In addition, we propose to require that funds disclose whether each of these service providers is a first- or second-tier affiliated person of the management company,[475] which data would highlight those funds that might be expected to rely on Commission exemptive relief with respect to those transactions.[476] We also

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[473] As discussed above, commenters to the FSOC Notice suggested that enhanced securities lending disclosures could be beneficial to investors and counterparties. *See supra* note 71.

[474] Item 30.c.i–Item 30.c.ii and Item 30.d.i–Item 30.d.ii of proposed Form N-CEN.

[475] Item 30.c.iii and Item 30.d.iv of proposed Form N-CEN.

[476] Section 17(d) of the Investment Company Act makes it unlawful for first- and second- tier affiliates, among others, acting as principal, to effect any transaction in which the fund, or a company it controls, is a joint or a joint and several participant in contravention of Commission rules. 15 U.S.C. 80a-17(d). Rule 17d-1(a) prohibits first- and second-tier affiliates of a registered fund, among others, acting as principal from participating in or effecting any transaction in connection with any joint enterprise or other joint arrangement or profit-sharing plan in which the fund (or any company it controls) is a participant unless an application or arrangement or plan has been filed with the Commission and has been granted. 17 CFR 270.17d-1. These provisions would prohibit a fund from compensating a securities lending agent that is a first- or second-tier affiliate with a share of loan revenue or lending to a borrower that is a first- or second-tier affiliate without an exemptive order, and generally from investing cash collateral in a first- or second-tier affiliated liquidity pool unless the fund

propose to require each management company to disclose whether it has made each of several specific types of payments, including a revenue sharing split, non-revenue sharing split (other than an administrative fee), administrative fee, cash collateral reinvestment fee, and indemnification fee, to one or more securities lending agents or cash collateral managers during the reporting period.[477] These disclosures will allow the Commission, investors and other management company boards of directors to understand better the type of fees a management company pays in connection with securities lending activities and whether, for example, the revenue sharing split that the company pays to a securities lending agent includes compensation for other services such as administration or cash collateral management.[478] Finally, our proposed disclosure of whether the cash collateral

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satisfies the conditions in rule 12d1-1 under the Investment Company Act, which provides exemptive relief for fund investments in an affiliated registered money market fund and pooled investment vehicle that would be an investment company but for sections 3(c)(1) and 3(c)(7) of the Investment Company Act and that operate in compliance with money market fund regulations subject to certain conditions. A management company that has a service agreement with an affiliated securities lending agent, under which compensation is not based on a share of loan revenue generated by the lending agent's efforts, generally is not a joint enterprise or other joint arrangement or profit-sharing plan and, thus, does not need an exemptive order. *See* Norwest Bank Minnesota, N.A., SEC Staff No-action Letter (pub. avail. May 25, 1995) *available at* http://www.sec.gov/divisions/investment/noaction/1995/norwest052595.pdf.

477 Item 30.e of proposed Form N-CEN. Management companies that report that other payments were made to one or more securities lending agents or cash collateral managers during the reporting period would also be required to describe the type or types of other payments. Item 30.e.vi of proposed Form N-CEN.

478 In evaluating the fees and services of any securities lending agent, the board of directors of a management company that engages in securities lending may be assisted by reviewing and comparing information on securities lending agent fee arrangements of other management companies. *See, e.g.*, SIFE Trust Fund, SEC No-action Letter (publ. avail. Feb. 17, 1982) (management company's board of directors determines that the securities lending agent's fee is reasonable and based solely on the services rendered); Neuberger Berman Equity Funds, et al., Investment Company Act Release No. 25880 (Jan. 2, 2003) (notice), Investment Company Act Release No. 25916 (Jan. 28, 2003) (order) (management company's board of directors, including a majority of independent directors, will determine initially and review annually, among other things, that (i) the services to be performed by the affiliated securities

manager is a first- or second-tier affiliate of the securities lending agent[479] could alert the Commission, investors, and other market participants to potential conflicts of interest when an entity managing a cash collateral reinvestment portfolio is affiliated with a securities lending agent that is compensated with a share of revenue generated by the cash collateral reinvestment pool. Together, the data that these proposed requirements would yield would allow the Commission to monitor the interaction of these service providers with management companies. In addition to informing the Commission's risk analysis and, potentially, future policymaking concerning securities lending activity by management companies, we believe that this information could also help inform other data users about the use of, and possible risks associated with, the lending of portfolio securities by management companies.

We request comment on the Part C questions relating to the management company's securities lending activities:

- Should management companies be required to report any or all of the proposed information concerning securities lending activity? If not, which items should not be required, and why? Should we collect any additional information?
- Should we require, as proposed, that management companies disclose annually whether any borrower of securities defaulted on its obligations to the management company? Why or why not? Should we instead, or additionally, require

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lending agent are appropriate for the lending fund, (ii) the nature and quality of the services to be provided by the agent are at least equal to those provided by others offering the same or similar services; and (iii) the fees for the agent's services are fair and reasonable in light of the usual and customary charges imposed by others for services of the same nature and quality).

[479] Item 30.d.iii of proposed Form N-CEN.

management companies to report monthly on Form N-PORT whether any borrower of securities defaulted on its obligations to the management company?

- Should we require, as proposed, that management companies report certain information about each securities lending agent and each cash collateral manager? Why or why not? Should we require that these funds disclose whether each of these external service providers is a first- or second-tier affiliate of the fund?
- In addition to requiring management companies to report whether they made each of the proposed types of payments associated with securities lending, should the Commission also require disclosure of specific rates and/or amounts paid during the reporting period of each enumerated type of compensation, similar to the disclosures we are proposing to require in the financial statements concerning the terms governing the compensation of the securities lending agent and collateral manager? Would that additional information be useful in proposed Form N-CEN in a structured format for risk monitoring and use by investors or other market participants, including other management company boards of directors that are evaluating securities lending agent services?
- Would the proposed reporting requirements regarding securities lending yield beneficial information? If not, what information should the Commission collect instead to conduct appropriate risk monitoring of securities lending activity by management companies? How should this information be collected?
- Would the proposed reporting requirements concerning securities lending activity be burdensome?

- Should proposed Form N-CEN include a specific definition for "securities lending agent"? Why or why not? If so, how should the term be defined? Should the form include a specific definition for "cash collateral manager"? Why or why not? If so, how should the term be defined?
- Are there other reporting requirements that the Commission should adopt for securities lending activity? If so, would these additional reporting requirements assist with Commission risk monitoring, inform the public, or both?

iv. Reliance on Certain Rules

Like Form N-SAR, proposed Form N-CEN would include a requirement that management companies report whether they relied on certain rules under the Investment Company Act during the reporting period.[480] However, proposed Form N-CEN would require this information with respect to additional rules not currently covered by Form N-SAR.[481] We are proposing to collect information on these additional rules to better monitor reliance on exemptive rules and to assist us with our accounting, auditing and oversight functions, including, for some rules, compliance with the Paperwork Reduction

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[480] Item 31 of proposed Form N-CEN

[481] *Compare id.* (requiring management companies to identify if they relied upon any of the following rules: rule 10f-3 (exemption for the acquisition of securities during the existence of an underwriting or selling syndicate), rule 12d1-1 (exemptions for investments in money market funds), rule 15a-4 (temporary exemption for certain investment advisers), rule 17a-6 (exemption for transactions with portfolio affiliates), rule 17a-7 (exemption of certain purchase or sale transactions between an investment company and certain affiliated persons thereof), rule 17a-8 (mergers of affiliated companies), rule 17e-1 (brokerage transactions on a securities exchange), rule 22d-1 (exemption from section 22(d) to permit sales of redeemable securities at prices which reflect sales loads set pursuant to a schedule), rule 23c-1 (repurchase of securities by closed-end companies), rule 32a-4 (independent audit committees)) *with* Items 40, 77.N, 77.O, 102.M, 102.N of Form N-SAR (requiring information regarding rules 2a-7 (money market funds), 10f-3 (see above for description) and 12b-1 (distribution of shares by registered open-end management investment company).

Act. For example, reporting of reliance on rules 15a-4 and 17a-8 under the Investment Company Act will allow the staff to monitor significant events relating to interim investment advisory agreements and affiliated mergers, respectively.

In addition, we are proposing to amend rule 10f-3 to eliminate the requirement that funds provide the Commission with reports on Form N-SAR regarding any transactions effected pursuant to the rule.[482] Rule 10f-3 currently requires funds to maintain and preserve certain information—the same information also required to be filed pursuant to Form N-SAR—in its records regarding rule 10f-3 transactions.[483] Our proposed amendments to rule 10f-3 would eliminate the requirement to periodically report this information,[484] but would not alter the requirement to maintain and preserve it. The Commission believes it is unnecessary for funds to continue to file this information because Commission staff can request the information in connection with staff inspections, examinations and other inquiries.[485]

We request comment on the Part C questions relating to the management company's reliance on certain exemptive rules and orders:

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[482] *See* proposed amendments to rule 10f-3.

[483] *See* rule 10f-3(c)(12) under the Investment Company Act [17 CFR 270.10f-3(c)(12)].

[484] *See* rule 10f-3(c)(9).

[485] Similar exemptive rules take this approach and do not require filings with the Commission. *See* rule 17a-7 under the Investment Company Act [17 CFR 270.17a-7] and rule 17e-1 under the Investment Company Act [17 CFR 270.17e-1]. We note that we previously proposed deleting this filing requirement from rule 10f-3 in 1996. *See* Exemption for the Acquisition of Securities During the Existence of an Underwriting Syndicate, Investment Company Act Release No. 21838 (Mar. 21, 1996) [61 FR 13620 (Mar. 27, 1996)]. We chose not to adopt it in light of the other amendments to the rule at that time, including the increase in the percentage limit on the principal amount of an offering that an affiliated fund could purchase. *See* Exemption for the Acquisition of Securities During the Existence of an Underwriting of Selling Syndicate, Investment Company Act Release No. 22775 (July 31, 1997) [62 FR 42401 (Aug. 7, 1997].

- Should any additional information concerning exemptive or other rules be requested?
- We request comment on our proposal to eliminate the requirement under rule 10f-3 that funds provide the Commission with periodic reports on Form N-SAR. Should we eliminate this requirement or continue it under Form N-CEN? Why or why not? Are there any costs or benefits associated with eliminating this requirement?

v. Expense Limitations

As in Form N-SAR,[486] Form N-CEN would require information regarding expense limitations.[487] The requirements in Form N-CEN, however, would be modified from Form N-SAR by requiring information on whether the management company had an expense limitation arrangement in place, whether any expenses of the fund were waived or reduced pursuant to the arrangement, whether the waived fees are subject to recoupment, and whether any expenses previously waived were recouped during the period.[488] We believe that more specific questions relating to management company expense limitation arrangements would reduce burdens and limit uncertainty for management companies when responding to these items.

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[486] *See* Items 53.A-C of Form N-SAR (requiring the fund to identify if expenses of the Registrant/Series were limited or reduced during the reporting period by agreement, and, if so, identify if the limitation was based upon assets or income).

[487] Item 32 of proposed Form N-CEN.

[488] *Id.* Proposed Form N-CEN would also include an instruction that filers should provide information in response to the item concerning any direct or indirect limitations, waivers or reductions, on the level of expenses incurred by the fund during the reporting period. The instructions would also provide an example of how an expense limit may be applied – when an adviser agrees to accept a reduced fee pursuant to a voluntary fee waiver or for a temporary period such as for a new fund in its start-up phase. *See* Instruction to Item 32 of proposed Form N-CEN.

We request comment on the Part C questions relating to the management company's expense limitations and fee waivers:

- Are the proposed Form N-CEN items relating to expense limitations appropriate? Is there any additional information that we should request on the management company's expense limitations? If so, what items and why?

vi. Service Providers

Similar to Form N-SAR,[489] Form N-CEN would collect identifying information on the management company's service providers, including its advisers and sub-advisers,[490] transfer agents,[491] custodians (including sub-custodians),[492] shareholder servicing agents,[493] third-party administrators,[494] and affiliated broker-dealers.[495] We are also proposing new requirements that the management company provide information on whether the service provider was hired or terminated during the reporting period and whether it is affiliated with the fund or its adviser(s).[496] In addition, like Form N-SAR, Form N-CEN would ask custodians to indicate the type of custody, but would expand upon the types of custody listed.[497] Together, these items would assist the Commission in

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489 *See* Items 8 and 10–15 of Form N-SAR.

490 Item 33 of proposed Form N-CEN.

491 Item 34 of proposed Form N-CEN. Form N-SAR equates a "shareholder servicing agent" with a "transfer agent." *See* Instruction to Item 12 of Form N-SAR.

492 Item 37 of proposed Form N-CEN.

493 Item 38 of proposed Form N-CEN.

494 Item 39 of proposed Form N-CEN.

495 Item 40 of proposed Form N-CEN.

496 *See, e.g.*, Items 33.a.vii, b and c.vii; 34.a.vi and b of proposed Form N-CEN.

497 *Compare* Items 15.E and 18 of Form N-SAR *with* Item 37.a.vii.6-Item 37.a.vii.7 of proposed Form N-CEN.

analyzing the use of third-party service providers by management companies, as well as identify service providers that service large portions of the fund industry.

Based on staff experience, management companies and their boards often rely on pricing agents to help price securities held by the fund. Therefore, we are proposing a new requirement that management companies provide identifying information on persons that provided pricing services during the reporting period,[498] as well as persons that formerly provided pricing services to the management company during the current and immediately prior reporting period that no longer provide services to that company.[499] This would assist the Commission in assessing the use of pricing services by the fund industry and the role they play in valuing fund investments.

Part C would also require identifying information on the ten entities that, during the reporting period, received the largest dollar amount of brokerage commissions from the management company[500] and with which the management company did the largest dollar amount of principal transactions.[501] Form N-SAR also requests identifying information on these entities[502] – information that is not available elsewhere in a structured format. Moreover, we continue to believe that brokerage commission and principal transaction information provides valuable information to Commission staff

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498 Item 35 of proposed Form N-CEN.

499 Item 36 of proposed Form N-CEN.

500 Item 41 of proposed Form N-CEN.

501 Item 42 of proposed Form N-CEN.

502 Items 20–23 of Form N-SAR. Form N-SAR includes an instruction designed to help filers distinguish between agency and principal transactions for purposes of reporting information regarding brokerage commissions and principal transactions. *See* Instruction to Items 20-23 of Form N-SAR. A substantially similar instruction would be included in Form N-CEN. *See* Instructions to Item 41-Item 42 of proposed Form N-CEN.

about management company brokerage practices, and would assist the staff in identifying the types of broker-dealers who service management company clients, monitoring for changes in business practices, and assessing the types of trading activities in which funds are engaged. Finally, similar to Form N-SAR, we are proposing to ask whether the management company paid commissions to broker-dealers for "brokerage and research services" within the meaning of section 28(e) of the Exchange Act.[503]

We request comment on the Part C questions relating to the fund's service providers:

- Are the proposed Form N-CEN items relating to service providers appropriate? Should any of the service providers or information regarding the service providers included in proposed Form N-CEN be excluded from the form? Are there other service providers for which we should require information? For example, should we request information on index providers and, in particular, affiliated index providers?
- Are the service providers identified in proposed Form N-CEN sufficiently clear or should we provide definitions for each provider? If so, what definitions should we use and why?

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[503] Item 43 of proposed Form N-CEN; *see also* Item 26.B of Form N-SAR (requiring disclosure if the fund's receipt of investment research and statistical information from a broker or dealer was a consideration which affected the participation of brokers or dealers or other entities in commissions or other compensation paid on portfolio transactions of Registrant). Section 28(e) of the Exchange Act establishes a safe harbor that allows money managers to use client funds to purchase "brokerage and research services" for their managed accounts under certain circumstances without breaching their fiduciary duties to clients. *See* 15 U.S.C. 78bb(e); *see also* Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934, Release No. 33-54165 (July 18, 2006) [71 FR 41978 (July 24, 2006)]. We continue to believe that an item indicating whether a fund uses soft dollars will assist our staff in their examinations and provide census data as to the number and type of funds that rely on the safe harbor provided by section 28(e).

- Should additional information be requested regarding advisers or sub-advisers? Should the form provide a definition of the term sub-adviser?
- Should any additional specific service provider information be requested? Is there any proposed service provider information that should not be requested? Should proposed Form N-CEN request information on whether the service provider was hired or terminated, or on the affiliation of the service provider, as proposed?
- In addition to requesting service provider city and state or foreign country information as proposed, should street address, phone or email information be requested? Would inclusion of this additional information in proposed Form N-CEN raise any privacy or other concerns?
- Should the form request information regarding sub-transfer agents or other shareholder servicers?
- Should any additional information on service provider fees be requested? For example, should custodian, audit, or administrator fees be requested? Is certain service provider fee information unnecessary as redundant with financial statements?
- Is the use of the term "pricing service" appropriate as proposed? Should the form provide a definition of "pricing service"?
- Should we, as proposed, include custody pursuant to rules 17f-6 and 17f-7 under the Investment Company Act (types of custody not currently listed in Form N-SAR) on the list of types of custody in proposed Form N-CEN?

- Is there additional information regarding broker-dealers that should be requested? Should we use a different methodology other than largest amount of brokerage commissions or collect information for a larger or smaller number of brokers?
- Is there additional information regarding payments by the management companies to brokers or dealers for "brokerage and research services" that should be requested?

We request comment on Part C, generally:

- Are there any additional questions regarding management companies that we should include in proposed Form N-CEN?

d. Part D — Closed-End Management Companies and Small Business Investment Companies

Proposed Form N-CEN would, as Form N-SAR does, recognize that closed-end funds and SBICs have particular characteristics that warrant questions targeted specifically to them.[504] Like Form N-SAR, Form N-CEN would require additional information to be reported by closed-end funds in Part D of the form and would also treat SBICs differently than other management investment companies, requiring them to complete Part D of the form in lieu of Part C.[505] The information requested in Part D would provide us with information that is particular to closed-end funds and SBICs and, thus, would assist us in monitoring the activities of these funds and our examiners in their preparation for exams of these funds.

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[504] *See* Items 86-88 of Form N-SAR (relating specifically to closed-end funds) and Items 89-110 of Form N-SAR (relating specifically to SBICs).

[505] As discussed above, SBICs are unique investment companies that operate differently than other management investment companies. *See supra* note 35.

Similar to Form N-SAR, we are proposing to require in Part D of proposed Form N-CEN information on the securities that have been issued by the closed-end fund or SBIC, including the type of security issued (common stock, preferred stock, warrants, convertible securities, bonds, or any security considered "other"), title of each class, exchange where listed, and ticker symbol.[506] We are also proposing to require new information relating to rights offerings[507] and secondary offerings by the closed-end fund or SBIC,[508] including whether there was such an offering during the reporting period and if so, the type of security involved.[509] Together, this information will allow the staff to quickly identify and track the securities and offerings of closed-end funds and SBICs when monitoring and examining these funds.

Like Form N-SAR,[510] we are also proposing to require that each closed-end fund or SBIC report information on repurchases of its securities during the reporting period.[511] However, unlike Form N-SAR, which requires information on the number of shares or principal amount of debt and net consideration received or paid for sales and repurchases for common stock, preferred stock, and debt securities, Form N-CEN would only require

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506 Item 44 of proposed Form N-CEN; *cf.* Items 87-88 and 96 of Form N-SAR (requesting information on the title and ticker of each class of securities issued on an exchange and information regarding certain specific types of securities). An instruction to Item 44 of proposed Form N-CEN would indicate that the fund should provide the ticker symbol for any security not listed on an exchange, but that has a ticker symbol.

507 Item 45 of proposed Form N-CEN.

508 Item 46 of proposed Form N-CEN.

509 *See* Item 45 and Item 46 of proposed Form N-CEN. Item 45.c of proposed Form N-CEN would also ask for the percentage of participation in a primary rights offering and an accompanying instruction to this item would address the method of calculating such percentage.

510 *See* Items 86 and 95 of Form N-SAR.

511 Item 47 of proposed Form N-CEN.

the closed-end fund or SBIC to indicate if it repurchased any outstanding securities issued by the closed-end fund or SBIC during the reporting period and indicate which type of security.[512]

We are also proposing to carry over Form N-SAR's requirements[513] relating to default on long-term debt[514] and dividends in arrears.[515] However, unlike Form N-SAR, which requires an attachment stating detailed information on defaults and arrears on senior securities,[516] we are proposing that Form N-CEN only require a yes/no question and text-based responses directly in the form.[517] We are similarly proposing to carry over the Form N-SAR requirement[518] regarding modifications to the constituent's instruments defining the rights of holders.[519] Similar to Form N-SAR, if a closed-end fund or SBIC made modifications to such an instrument, it would also be required to file an attachment

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[512] We note that, with respect to closed-end funds, financial information relating to monthly sales and repurchases of shares would be reported monthly on proposed Form N-PORT. *See* Item B.6 of proposed Form N-PORT (requiring the aggregate dollar amounts for sales and redemptions/repurchases of fund shares during each of the last three months).

[513] *See* Items 77.G and 102.F of Form N-SAR.

[514] Item 48 of proposed Form N-CEN.

[515] Item 49 of proposed Form N-CEN.

[516] Items 77.G and 102.F of Form N-SAR.

[517] Item 48 of proposed Form N-CEN would require, with respect to any default on long-term debt, the nature of the default, the date of the default, the amount of the default per $1000 face amount, and the total amount of default. An instruction to this item would define "long-term debt" to mean a debt with a period of time from date of initial issuance to maturity of one year or greater. Item 49 of proposed Form N-CEN would require, with respect to any dividends in arrears, the title of the issue and the amount per share in arrears. This item would define "dividends in arrears" to mean dividends that have not been declared by the board of directors or other governing body of the fund at the end of each relevant dividend period set forth in the constituent instruments establishing the rights of the stockholders.

[518] Items 77.I and 102.H of Form N-SAR.

[519] Item 50 of proposed Form N-CEN.

in Part G of Form N-CEN with a more detailed description of the modification.[520] This item provides the Commission with information on and copies of documents reflecting changes to shareholders' rights.

Part G of proposed Form N-CEN would also require closed-end funds or SBICs to file attachments regarding material amendments to organizational documents,[521] new or amended investment advisory contracts,[522] information called for by Item 405 of Regulation S-K,[523] and, for SBICs only, senior officer codes of ethics.[524] Where possible, we sought to eliminate the need to file attachments with the census reporting form in order to simplify the filing process and maximize the amount of information we receive in a data tagged format. However, the attachments proposed to be required with reports on Form N-CEN, provide us with information that is not otherwise updated or filed with the Commission and, thus, we believe they should continue to be filed in attachment form. All of the attachments in proposed Form N-CEN that are specific to closed-end funds and SBICs are also currently required by Form N-SAR.[525]

Similar to Form N-SAR, we are proposing to require other census-type information relating to management fees and net operating expenses. Closed-end funds

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[520] Item 79.b.ii of proposed Form N-CEN.

[521] Item 79.b.i of proposed Form N-CEN.

[522] Item 79.b.iii of proposed Form N-CEN.

[523] Item 79.b.iv of proposed Form N-CEN.

[524] Item 79.b.v of proposed Form N-CEN. This item applies only to SBICs because other management investment companies, including closed-end funds, provide this information in filings on Form N-CSR. *See* Items 2 and 3 of Form N-CSR; *see also* rule 30d-1 under the Investment Company Act [17 CFR 270.30d-1].

[525] *Compare* Item 79.b of proposed Form N-CEN *with* Items 77.Q.1, 77.Q.2, 102.P.1, 102.P.2, and 102.P.3 of Form N-SAR; *see also* Instructions to Specific Items 77Q1(a), 77Q1(e), 77Q2, 102P1(a), 102P1(e), 102P2, and 102P3 of Form N-SAR.

would be required to report the fund's advisory fee as of the end of the reporting period as a percentage of net assets.[526] Additionally, closed-end funds and SBICs would both be required to report the fund's net annual operating expenses as of the end of the reporting period (net of any waivers or reimbursements) as a percentage of net assets. [527] Unlike open-end funds, which provide management fee and net expense information to the Commission in a structured format,[528] such information is not reported to or updated with the Commission in a structured format by closed-end funds or SBICs. This information would allow the Commission to track industry trends relating to fees. Like Form N-SAR, proposed Form N-CEN also would require, for the end of the reporting period, the market price per share[529] and NAV per share[530] of the fund's common stock.

Finally, like Form N-SAR, proposed Form N-CEN would require information regarding an SBIC's investment advisers, transfer agents, and custodians.[531] This information is the same as what would be reported by open-end and closed-end funds in Part C of proposed Form N-CEN, but SBICs would not be required to fill out Part C of the proposed form. As noted above, proposed Form N-CEN, like Form N-SAR, would

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[526] Item 51 of proposed Form N-CEN; *cf.* Items 47-52 and 72.F of Form N-SAR (requesting advisory fee information for management companies, including closed-end funds). Whereas Form N-SAR requests information regarding the advisory fee rate and the dollar amount of gross advisory fees, an instruction to Item 51 of proposed Form N-CEN would explain that the management fee reported should be based on the percentage of amounts incurred during the reporting period.

[527] Item 52 of proposed Form N-CEN; *cf.* Items 72.X and 97.X of Form N-SAR (requesting total expenses in dollars for closed-end funds and SBICs).

[528] Management fee information for open-end funds is currently tagged in XBRL format in the fund's risk return summary and is therefore not required by proposed Form N-CEN. *See* General Instruction C.3.G of Form N-1A.

[529] Item 53 of proposed Form N-CEN; *see* Items 76 and 101 of Form N-SAR

[530] Item 54 of proposed Form N-CEN; *see* Items 74.V.1 and 99.V of Form N-SAR.

[531] Item 55-Item 57 of proposed Form N-CEN.

recognize that SBICs have particular characteristics that warrant questions targeted specifically to them. The majority of questions in Part C of proposed Form N-CEN would be inapplicable to SBICs or otherwise request information that would not be helpful to us in carrying out our regulatory functions with respect to SBICs. Accordingly, we propose to except SBICs from filling out Part C of the form and instead would include certain service provider questions from Part C in Part D of the form as response items for SBICs.

We request comment on the following information requirements relating to closed-end funds and SBICs:

- Are the proposed Form N-CEN items relating to closed-end funds and SBICs appropriate? Are there other information items relating to closed-end funds and SBICs that we should require? If so, what information and why? Are there any items relating to closed-end funds and SBICs in proposed Form N-CEN that should be excluded from the form?
- Is there additional information regarding trading in closed-end fund or SBIC securities that should be requested?
- Is there additional information regarding repurchases that should be requested?
- Should the form provide specific instructions on the calculation of management fees?
- Should net annual operating expenses be defined? Should they include amortization and depreciation expenses?
- Should the management fee for closed-end funds be requested as proposed or should other information such as the absolute amount of fees be requested?

Should we request this information for SBICs? Should the form request information on what the fee is based upon, such as a percentage of income or performance? Should breakpoints used in calculating the management fee be reported at each breakpoint level or should an average management fee be provided? Should the management fee information requested be forward-looking or should it be backward looking, as proposed, providing a management fee based on fees charged during the reporting period and, if so, which NAV (*e.g.*, year-end or average) should be used?

- If a closed-end fund or SBIC pays a performance fee, should the form provide instructions regarding how they should calculate the fees to be disclosed?
- In connection with defaults, is reference to a $1,000 face amount appropriate? Would this requirement appropriately provide meaningful information not only on the amount of principal default but default on interest payments? Should the form also require information on the amount of debt outstanding to provide additional context and information related to the default?
- Regarding dividends in arrears, should the form request per share amounts as proposed or should it request the aggregate amount in arrears?

e. Part E — Exchange-Traded Funds and Exchange-Traded Managed Funds

We are proposing to include a section in Form N-CEN related specifically to ETFs—Part E—which ETFs would complete in addition to Parts A, B, and G, and either Part C (for open-end funds) or Part F (for UITs). For purposes of Form N-CEN, an ETF is a special type of investment company that is registered under the Investment Company Act as either an open-end fund or a UIT. Unlike other open-end funds and UITs, an ETF

does not sell or redeem its shares except in large blocks (or "creation units") and with broker-dealers that have contractual arrangements with the ETF (called "authorized participants").[532] However, national securities exchanges list ETF shares for trading, which allows investors to purchase and sell individual shares throughout the day in the secondary market. Thus, ETFs possess characteristics of traditional open-end funds and UITs, which issue redeemable shares, and of closed-end funds, which generally issue shares that trade at negotiated prices on national securities exchanges and that are not redeemable.[533]

Currently, ETFs are subject to the same comprehensive information reporting requirements on Form N-SAR as are other open-end funds or UITs, and they are not required to report additional, more specialized information because Form N-SAR predates the introduction of ETFs to the market and has not been amended to address ETFs' distinct characteristics. In 2009, the Commission amended its registration statement disclosure requirements for ETFs[534] that are open-end funds to better meet the

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[532] For purposes of Form N-CEN, "creation unit" is defined as "a specified number of Exchange-Traded Fund or Exchange-Traded Managed Fund shares that the fund will issue to (or redeem from) an authorized participant in exchange for the deposit (or delivery) of specified securities, cash, and other assets." Instruction 8 to Item 60 of proposed Form N-CEN. For purposes of Form N-CEN, "authorized participant" is defined as "a broker-dealer that is also a member of a clearing agency registered with the Commission, and which has a written agreement with the Exchange-Traded Fund or Exchange-Traded Managed Fund or one of its designated service providers that allows it to place orders to purchase or redeem creation units of the Exchange-Traded Fund or Exchange-Traded Managed Fund." Instruction to Item 59 of proposed Form N-CEN.

[533] *See generally* Actively Managed Exchange-Traded Funds, Investment Company Act Release No. 25258 (Nov. 8, 2001) [66 FR 57614 (Nov. 15, 2001)]; ETF Proposing Release, *supra* note 446.

[534] *See* General Instruction A to Form N-1A (defining "exchange-traded fund").

needs of investors who purchase those ETF shares in secondary market transactions.[535] We believe that it is appropriate—and accordingly propose—to similarly tailor some of the comprehensive information reporting requirements in proposed new Form N-CEN to the special characteristics of ETFs. Funds and UITs meeting the definition of "exchange-traded fund" in Form N-CEN would be required to disclose information pursuant to the items in Part E of the form, as would certain similar investment products known as "exchange-traded managed funds."[536]

Some of the new reporting requirements for ETFs that we are proposing today as part of Form N-CEN relate to an ETF's (or its service provider's) interaction with authorized participants. These entities have an important role to play in the orderly distribution and trading of ETF shares and are significant to the ETF marketplace.[537]

Because of the importance of authorized participants, we are proposing new reporting requirements concerning these entities. Currently, the information we have regarding reliance by ETFs on particular authorized participants is limited, and we believe that collecting information concerning these entities on an annual basis would allow us to understand and better assess the size, capacity, and concentration of the authorized participant framework and also inform the public about certain characteristics of the ETF primary markets. Accordingly, we propose to require each ETF to report

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[535] *See* Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Securities Act Release No. 8998 (Jan. 13, 2009) [74 FR 4546, 4558 (Jan. 26, 2009)].

[536] General Instruction A to proposed Form N-CEN; *see also supra* note 446.

[537] *See* ETF Proposing Release, *supra* note 446, at 14620–21.

identifying information about its authorized participants[538] and the dollar value of the ETF shares the authorized participant purchased and redeemed from the ETF during the reporting period.[539] More specifically, proposed Form N-CEN would require an ETF to report the name of each of its authorized participants (even if the authorized participant did not purchase or redeem any ETF shares during the reporting period),[540] certain other identifying information,[541] the dollar value of the ETF's shares that the authorized participant purchased from the ETF during the reporting period,[542] and the dollar value of the ETF's shares that the authorized participant redeemed during the reporting period.[543] Collection of this additional information may allow the Commission staff to monitor how ETF purchase and redemption activity is distributed across authorized participants and, for example, the extent to which a particular ETF—or ETFs as a group—may be reliant on one or more particular authorized participants.

Other proposed new reporting requirements relate to certain characteristics of ETF creation units—the large blocks of shares that authorized participants may purchase from or redeem to the ETF. In the primary market, ETF shares, bundled in creation units, are sold or redeemed either primarily "in kind"—*i.e.*, in the form of the ETF's constituent portfolio securities—or primarily in cash. When transacting in kind or in cash, the particular authorized participant wishing to purchase (or redeem) shares typically bears,

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538 Item 59.a–Item 59.d of proposed Form N-CEN.

539 Item 59.e–Item 59.f of proposed Form N-CEN.

540 Item 59.a of proposed Form N-CEN.

541 Item 59.b–Item 59.d of proposed Form N-CEN.

542 Item 59.e of proposed Form N-CEN.

543 Item 59.f of proposed Form N-CEN.

in the form of a fixed fee, the transactional costs associated with assembling (or disassembling) creation units. Those costs, therefore, are not mutualized to non-transacting shareholders. When an authorized participant purchases (or redeems) ETF shares all or partly in cash, absent a countervailing effect, the ETF would experience additional costs (*e.g.*, brokerage, taxes) involved with buying the securities with cash or selling portfolio securities to satisfy a cash redemption. Therefore, in order to ensure that the purchasing or redeeming party bears these costs rather than the non-transacting shareholders, the ETF may charge a "variable" fee, so called because it is often computed as a percentage of the value of the creation unit. We understand that such variable fees also can take the form of a dollar amount.

In order to better understand the capital markets implications of different creation unit requirements, primary market transaction methods, and transaction fees, we are proposing to require that ETFs annually report summary information about these characteristics of creation units and primary market transactions. ETFs are not currently required to report the information discussed below in a structured format, and public availability of many of the proposed data items is limited and indeterminable. To better understand the commonality of different transaction methods and the degree to which it varies across ETFs and over time, we propose to require that ETFs report the total value (i) of creation units that were purchased by authorized participants primarily in exchange for portfolio securities on an in-kind basis;[544] (ii) of those that were redeemed primarily on an in-kind basis;[545] (iii) of those purchased by authorized participants primarily in

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[544] Item 60.a of proposed Form N-CEN.

[545] Item 60.c of proposed Form N-CEN.

exchange for cash;[546] and (iv) of those that were redeemed primarily on a cash basis.[547] For purposes of these proposed reporting requirements concerning transaction methods and transaction fees, "primarily" would mean greater than 50% of the value of the creation unit.[548] To better understand the effects of primary market transaction fees on ETF pricing and trading and to better inform the public about such fees, we also propose to require that ETFs report applicable transactional fees—including each of "fixed" and "variable" fees—applicable to the last creation unit purchased and the last creation unit redeemed during the reporting period of which some or all of the creation unit was transacted on a cash basis, as well as the same figures for the last creation unit purchased and the last creation unit redeemed during the reporting period of which some or all of the creation unit was transacted on an in-kind basis.[549]

We also propose to require ETFs to report the number of ETF shares required to form a creation unit as of the last business day of the reporting period,[550] which we believe would also allow the Commission and other data users to better analyze any effects that ETFs' creation unit size requirements may have on ETF pricing and trading. We are proposing that this information be as of the last business day of the reporting period because we understand that these fees sometimes vary over the course of the reporting period, and the fee level information is likely to be most current if provided as of the last business day of the period. In addition to information about authorized

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546 Item 60.b of proposed Form N-CEN.

547 Item 60.d of proposed Form N-CEN.

548 Instruction 9 to Item 60 of proposed Form N-CEN.

549 Item 60.e–Item 60.h of proposed Form N-CEN.

550 Item 60 of proposed Form N-CEN.

participants and creation units, we propose to require that ETFs, like closed-end funds, disclose the exchange on which the ETF is listed so that Commission staff may be better able to quickly gather information as to which ETFs may be effected should an idiosyncratic risk or market event arise in connection with a particular exchange.[551]

Finally, with respect to ETFs that are UITs, we ask for information regarding tracking difference and tracking error.[552] This information is requested of open-end index funds in Item 27(b) and, for the same reasons discussed in Part II.E.4.c.i of this release, the proposed form would request this information of ETFs that are UITs.

Taken together, we believe that, in addition to informing the Commission's risk analysis and, potentially, future policymaking concerning ETFs, the information these proposed requirements would yield could also help inform the interested public about the operation of, and possible risks associated with, these funds.

We request comment on the proposed reporting requirements for ETFs and ETMFs:

- Should ETFs be required to report the proposed additional information in Part E of proposed Form N-CEN that other funds would not be required to report?
- Should ETFs that are UITs and ETFs that are open-end funds be subject to the same special reporting requirements, or should the requirements be different from one another? If so, how? Should ETFs and ETMFs be subject to the same special reporting requirements, or should the requirements be different from one another? If so, how and why?

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[551] Item 58 of proposed Form N-CEN.

[552] Item 61 of proposed Form N-CEN.

- Should the proposed items concerning authorized participants be required? Why or why not? Should we require additional information about authorized participants? For example, should we require funds to report the volume of shares purchased and redeemed in each month of the reporting period by each authorized participant, in order to better understand how primary market transactions are distributed across authorized participants and over the course of the reporting period? Should we require funds to report information on purchases and redemptions by each authorized participant on days when the most primary or secondary market activity is observed, which could be used to better understand how primary market activity responds to periods of unusual activity? Why or why not? If so, what specific information should be required?
- Should the proposed items concerning creation unit characteristics and primary market transactions be required? Why or why not?
- Should the ETFs and ETMFs that are subject to the proposed special reporting requirements be defined as proposed? If not, how should the group be defined? Are there certain entities that are not included in the proposed definitions that should be? Are there certain entities that are included in the proposed definitions that should not be?
- Would the proposed reporting requirements yield beneficial information? If not, what information should the Commission collect instead to conduct appropriate risk monitoring of ETFs? How should this information be collected?
- Would any of the proposed reporting requirements conflict with agreements between private parties, such as ETFs and authorized participants, to keep

information confidential? If so, should the information nonetheless be required to be disclosed?

- How might the proposed reporting requirements concerning ETF primary market transaction fees be used by others outside the Commission, if at all? Are the proposed fee categories (*viz*., fixed fees and variable fees) appropriate, or would alternative categories be more suitable? If so, what should those categories be?
- How costly would the proposed reporting requirements for ETFs be? In addition to reporting and recordkeeping costs, are there competitive or other costs that should be considered in connection with these proposed requirements?
- Are there other reporting requirements that the Commission should adopt for ETFs? If so, would these additional reporting requirements assist with Commission risk monitoring, inform the public, or both?

f. Part F — Unit Investment Trusts

Part F of Form N-CEN would require information specific to UITs. Like Form N-SAR, proposed Form N-CEN would recognize that UITs have particular characteristics that warrant questions targeted specifically to them.[553] The information requested in Part F would inform us further about the scope and composition of the UIT industry and, thus, would assist us in monitoring the activities of UITs and our examiners in their preparation for exams of UITs. Accordingly, similar to Form N-SAR,[554] proposed Form N-CEN would require certain identifying information relating to a UIT's

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[553] *See* Items 111-133 of Form N-SAR (relating specifically to UITs).

[554] *See* Items 111 (depositor information), 112 (sponsor information), 113 (trustee information), and 114 (principal underwriter information) of Form N-SAR.

service providers and entities involved in the formation and governance of UITs, including its depositor,[555] sponsor,[556] trustee,[557] and third party administrator.[558]

Proposed Form N-CEN would also ask whether a UIT is a separate account of an insurance company.[559] Depending on a UIT's response to this item, it would proceed to answer certain additional questions in Part F.[560] While Form N-SAR generally does not differentiate between UITs that are and are not separate accounts of insurance companies, proposed Form N-CEN would make this distinction. We believe that by distinguishing between these different types of UITs, the form will allow us to better target the information requests in the form appropriate to the type of UIT. We also believe this new approach will allow filers to better understand the information being requested of them because it will be more reflective of their operations and should thus improve the consistency of the information reported.

Accordingly, similar to Form N-SAR,[561] a UIT that is not a separate account of an insurance company would provide the number of series existing at the end of the

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555 Item 62 of proposed Form N-CEN.

556 Item 65 of proposed Form N-CEN (only applies to UITs that are not insurance company separate accounts).

557 Item 66 of proposed Form N-CEN (only applies to UITs that are not insurance company separate accounts).

558 Item 63 of proposed Form N-CEN. Form N-SAR does not request information about a UIT's third-party administrator.

559 Item 64 of proposed Form N-CEN; *see* Item 117.A of Form N-SAR.

560 If a UIT answers "yes" to this item, it would proceed to answer Items 73 through 78 of the form. However, if a UIT answers "no" to this item, it would proceed to Items 65 through 72, and 78. *Id.*

561 *See* Items 118-120 of Form N-SAR (all UITs are required to complete these items).

reporting period that had securities registered under the Securities Act[562] and, for new series, the number of series for which registration statements under the Securities Act became effective during the reporting period[563] and the total value of the portfolio securities on the date of deposit.[564] Proposed Form N-CEN would also carry over from Form N-SAR[565] requirements relating to the number of series with a current prospectus,[566] the number of existing series (and total value) for which additional units were registered under the Securities Act,[567] and the value of units placed in portfolios of subsequent series.[568] Our proposal would also require that a UIT that is not a separate account of an insurance company provide the total assets of all series combined as of the reporting period,[569] which is also currently required by Form N-SAR.[570]

As proposed, Form N-CEN would also require certain new information to be reported by separate accounts offering variable annuity and variable life insurance contracts. Specifically, if the UIT is a separate account of an insurance company, proposed Form N-CEN would require disclosure of its series identification number[571] and, for each security that has a contract identification number assigned pursuant to rule

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562 Item 67 of proposed Form N-CEN.

563 Item 68.a of proposed Form N-CEN.

564 Item 68.b of proposed Form N-CEN.

565 *See* Items 121-124 of Form N-SAR (all UITs are required to complete these items).

566 Item 69 of proposed Form N-CEN.

567 Item 70 of proposed Form N-CEN.

568 Item 71 of proposed Form N-CEN.

569 Item 72 of proposed Form N-CEN.

570 *See* Item 127.L of Form N-SAR (all UITs are required to complete this item). Proposed Form N-CEN would not require UITs to report certain assets held by a UIT as required by Item 127 of Form N-SAR. *See* Items 127.A-K of Form N-SAR.

571 Item 73 of proposed Form N-CEN.

313 of Regulation S-T, the number of individual contracts that are in force at the end of the reporting period.[572]

With respect to insurance company separate accounts, our proposal would also require new identifying and census information for each security issued through the separate account.[573] This requirement would include the name of the security,[574] contract identification number,[575] total assets attributable to the security, [576] number of contracts sold,[577] gross premiums received,[578] and amount of contract value redeemed.[579] This item would also require additional information relating to section 1035 exchanges, including gross premiums received pursuant to section 1035 exchanges,[580] number of contracts affected in connection with such premiums,[581] amount of contract value redeemed pursuant to section 1035 redemptions[582] and the number of contracts affected by such redemptions.[583] In addition, insurance company separate accounts would be required to provide information on whether they relied on rules 6c-7[584] and 11a-2[585]

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[572] Item 74 of proposed Form N-CEN.

[573] Item 75 of proposed Form N-CEN.

[574] Item 75.a of proposed Form N-CEN.

[575] Item 75.b of proposed Form N-CEN.

[576] Item 75.c of proposed Form N-CEN.

[577] Item 75.d of proposed Form N-CEN.

[578] Item 75.e of proposed Form N-CEN.

[579] Item 75.h of proposed Form N-CEN.

[580] Item 75.f of proposed Form N-CEN.

[581] Item 75.g of proposed Form N-CEN.

[582] Item 75.i of proposed Form N-CEN.

[583] Item 75.j of proposed Form N-CEN.

[584] Item 76 of proposed Form N-CEN. Rule 6c-7 under the Investment Company Act provides exemptions from certain provisions of sections 22(e) and 27 of the Act for registered separate

under the Investment Company Act. This information, which is specific to UITs that are separate accounts of insurance companies and is either not otherwise filed with the Commission or is not filed in a structured format, will further assist the Commission in its oversight of UITs, including monitoring trends in the variable annuity and variable life insurance markets.

Finally, Form N-CEN would carry over the Form N-SAR[586] requirement that a UIT provide certain information relating to divestments under section 13(c) of the Investment Company Act.[587] Thus, if a UIT intends to avail itself of the safe harbor provided by section 13(c) with respect to its divestment of certain securities, it will continue to make the following disclosures on Form N-CEN: identifying information for the issuer, total number of shares or principal amount divested, date that the securities were divested, and the name of the statute that added the provisions of section 13(c) in

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accounts offering variable annuity contracts to participants in the Texas Optional Retirement Program. *See* 17 CFR 270.6c-7.

585 Item 77 of proposed Form N-CEN. Rule 11a-2 under the Investment Company Act relates to offers of exchange by certain registered separate accounts or others, the terms of which do not require prior Commission approval. *See* 17 CFR 270.11a-2.

586 Item 133 of Form N-SAR. Section 13(c) of the Investment Company Act provides a safe harbor for registered investment companies and its employees, officers, directors and investment advisers, based solely upon the investment company divesting from, or avoiding investing in, securities issued by persons that the investment company determines, using credible information that is available to the public, engage in certain investment activities in Iran or Sudan. The safe harbor, however, provides that this limitation on actions does not apply unless the investment company makes disclosures about the divestments in accordance with regulations prescribe by the Commission. *See* 15 U.S.C. 80a-13(c)(2)(B). Management investment companies are required to provide the disclosure on Form N-CSR, pursuant to Item 6(b) of the form, and UITs are required to provide the disclosure on Form N-SAR, pursuant to Item 133 of the form. *See* Technical Amendments to Forms N-CSR and N-SAR in Connection With the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, Exchange Act Release No. 34-63087 (Oct. 13, 2010) [75 FR 64120 (Oct. 19, 2010)].

587 Item 78 of proposed Form N-CEN.

accordance with which the securities were divested.[588] If the UIT holds any securities of the issuer on the date of the filing, it would also provide the ticker symbol, CUSIP number, and total number of shares or, for debt securities, the principal amount held on the date of the filing.[589]

We request comment on the following information requirements relating to UITs:

- Is there any additional information regarding series of UITs that should be requested? For example, are there other special UIT account types that should also be included in the form? Is there any information regarding UITs that is included in proposed Form N-CEN that should be excluded from the form?
- Is there any additional information regarding those involved in the formation and governance of the UIT and service providers to the UIT that should be requested? Should the form provide instructions or a definition regarding depositor or sponsor?
- Is there any additional information regarding the number of series that should be requested?
- We request comment on the requirement to provide asset information for the UIT. Is there any other information regarding the series' assets that should be provided? Form N-SAR item 127 contains a detailed list of asset types held by the UIT. The requirement in Form N-CEN is limited to total assets. Should we

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[588] Item 78.a of proposed Form N-CEN.

[589] Item 78.b of proposed Form N-CEN. An instruction to Item 78 would address when the UIT should report divestments pursuant to this item.

require more granular asset information in Form N-CEN, as we did in Form N-SAR item 127? If so which items should we include?

- We request comment on our items relating specifically to insurance company separate accounts. Should we include items relating solely to insurance company separate accounts? Are there any UIT items that insurance company separate accounts should be subject to that they would not be subject to under our proposal? Is there any other information that we should require for insurance company separate accounts?

g. Part G — Attachments

Like Form N-SAR,[590] we are proposing that Part G of Form N-CEN require some descriptive attachments to the filing in order to provide the staff with more granular information regarding certain key issues.[591] Where possible, we sought to eliminate the need to file attachments with the census reporting form in order to simplify the filing process and maximize the amount of information we receive in a data tagged format.[592] Accordingly, we have attempted to limit the number of attachments to the form to those that are most useful to the staff, either because of investor protection issues or because

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590 *See* Items 77.E, 77.I, 77.K, 77.L, 77.N, 77.P, 77.Q.1, 77.Q.2, 102.D, 102.H, 102.J, 102.K, 102.M, 102.O, 102.P.1, 102.P.2, and 102.P.3 of Form N-SAR.

591 Form N-SAR requires only management companies to file attachments to reports on the form, whereas proposed Form N-CEN would require certain attachments for all Registrants.

592 With respect to certain attachments currently in Form N-SAR, we propose to integrate the data requirements into the form itself, rather than keep the attachment requirements. *See, e.g.*, Items 77.G and 102.F of Form N-SAR; Item 48 and Item 49 of proposed Form N-CEN. However, not all of the attachments currently required by Form N-SAR lend themselves to integration into the form, either because of the amount of information reported in the attachment or because the attachment is a standalone document (*e.g.*, the accountant's report on internal control).

the information is not available elsewhere. Moreover, all except one of the proposed attachments to Form N-CEN are current requirements in Form N-SAR.[593]

Thus, all funds that would be required to file Form N-CEN would, where applicable, be required to file attachments regarding legal proceedings,[594] provision of financial support,[595] changes in the fund's independent public accountant,[596] independent public accountant's report on internal control,[597] and changes in accounting principles and practices.[598] In addition, all funds would be required, where applicable, to provide attachments relating to information required to be filed pursuant to exemptive orders,[599] and other information required to be included as an attachment pursuant to Commission rules and regulations.[600] Moreover, closed-end funds and SBICs would also be required, where applicable, to provide attachments relating to material amendments to organizational documents,[601] instruments defining the rights of the holders of any new or amended class of securities,[602] new or amended investment advisory contracts,[603]

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593 *But see supra* note 591.

594 Item 79.a.i of proposed Form N-CEN.

595 Item 79.a.ii of proposed Form N-CEN.

596 Item 79.a.iii of proposed Form N-CEN.

597 Item 79.a.iv of proposed Form N-CEN. As noted in Item 79.a.iv, this item would only apply to management companies, other than SBICs.

598 Item 79.a.v of proposed Form N-CEN.

599 Item 79.a.vi of proposed Form N-CEN.

600 Item 79.a.vii of proposed Form N-CEN.

601 Item 79.b.i of proposed Form N-CEN. Unlike open-end funds, closed-end funds and SBICs do not otherwise update or file the information requested by this item with the Commission and, thus, we believe the information should continue to be filed as an attachment to the census reporting form.

602 Item 79.b.ii of proposed Form N-CEN.

information called for by Item 405 of Regulation S-K,[604] and, for SBICs only, senior officer codes of ethics.[605] Each attachment proposed to be required by Form N-CEN includes instructions describing the information that should be provided in the attachment.[606]

As noted earlier, all of the attachments, except one, are currently required by Form N-SAR.[607] The new attachment relates to the provision of financial support and would be filed by a fund if an affiliate, promoter or principal underwriter of the fund, or affiliate of such person, provided financial support to the fund during the reporting period. As discussed in Part II.E.4.b, we are proposing to include this requirement in Form N-CEN because we believe that it is important that the Commission understand the nature and extent that a fund's sponsor provides financial support to a fund.

We request comment on the following information requirements relating to attachments to the Form:

- Should any additional attachments be required to be attached to Form N-CEN? Are any proposed attachments unnecessary and, if so, why? Should any of the attachments requested for all Registrants be limited to only certain Registrants?

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603 Item 79.b.iii of proposed Form N-CEN. Unlike open-end funds, closed-end funds and SBICs do not otherwise update or file the information requested by this item with the Commission and, thus, we believe the information should continue to be filed as an attachment to the census reporting form.

604 Item 79.b.iv of proposed Form N-CEN.

605 Item 79.b.v of proposed Form N-CEN.

606 For example, the instructions to Item 79.b.v require SBICs to attach detailed information regarding the senior officer code of ethics and certain information regarding the audit committee. The instructions also require SBICs to meet certain requirements regarding the availability of their senior office code of ethics.

607 *See supra* note 593 and accompanying text.

- Should we require that the information be reported as attachments to the form or in narrative text-boxes embedded in the form?
- Should attachment requirements concerning copies of all constituent instruments defining the rights of the holders of any new class of securities and of any amendments to constituent instruments be limited to closed-end funds and SBICs as proposed? Should such requirements apply to all funds?
- Should the attachments regarding material amendments to organizational documents and new or amended advisory contracts apply only to closed-end funds and SBICs as proposed? Should these requirements apply to all funds? Should the advisory contract requirement apply only to advisory contracts to which the fund is a party or should it include all advisory contracts, including subadvisory contracts?
- Should any of the attachment filing requirements without materiality qualifiers be limited by materiality qualifiers?
- With Form N-CEN, we are proposing to eliminate a number of attachments currently required by items 77 and 102 of Form N-SAR. Are there any attachments to Form N-SAR, that are proposed to be eliminated, that should be included in Form N-CEN? Which attachments and why? Are there any costs associated with eliminating these attachments?

5. Items Required by Form N-SAR That Would be Eliminated by Form N-CEN

As we discussed above, with proposed Form N-CEN, we seek to improve the information that we collect in order to reflect changes in the fund industry since Form N-SAR's adoption in 1985. With that in mind, we are proposing to eliminate certain

items from Form N-SAR that we believe are no longer needed by Commission staff or are outdated in their current form. For example, we are proposing not to include Form N-SAR's requirement relating to considerations which affected the participation of brokers or dealers or other entities in commissions or other compensation paid on portfolio transactions.[608]

Form N-CEN would similarly eliminate a number of Form N-SAR items where the information is (or would be, under our proposed reforms) reported elsewhere – for example, items relating to fees and expenses, including front-end and deferred/contingent sales loads, redemption and account maintenance fees, rule 12b-1 fees, and advisory fees.[609] Many of the fee and expense items required by Form N-SAR are already disclosed, in a structured format, in the risk-return summary required by Form N-1A for open-end funds, as well as in an unstructured format in other places in fund registration statements.[610] For other fee and expense items, the information is either not frequently used by Commission staff or we believe that the benefit of having such information is minimal while the burden to funds of reporting such information is costly.[611] For similar

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608 Item 26 of Form N-SAR. Proposed Form N-CEN does, however, contain information relating to funds that paid commissions to brokers and dealers for research services. *See* Item 43 of proposed Form N-CEN.

609 *See generally* Items 29-44, 47-52 of Form N-SAR. Proposed Form N-CEN does, however, contain items relating to information regarding expense limitations, reductions, and waivers. *See* Item 32 of proposed Form N-CEN. As discussed above, proposed Form N-CEN would also require information on management fees and net operating expenses for closed-end funds, as that information is not available elsewhere in a structured format. *See* Item 51 and Item 52 of proposed Form N-CEN; *see also supra* Part II.E.4.d.

610 *See* General Instruction C.3.G of Form N-1A; *see generally* Form N-1A, Form N-2, Form N-4, Form N-5, Form N-6.

611 We acknowledge that some of the information reported in reports on Form N-SAR related to loads paid to captive or unaffiliated broker-dealers has been used by interested third-parties, including researchers. *See, e.g.,* Susan E. K. Christoffersen, Richard Evans, and David K.

reasons as above, we are also proposing not to require other information in proposed Form N-CEN, including information relating to adjustments to shares outstanding by stock split or stock dividend, minimum initial investments, investment practices, portfolio turnover, number of shares outstanding, number of shareholder accounts, average net assets, and certain other condensed balance sheet data items.[612]

We are also proposing to eliminate certain information requirements specifically relating to SBICs and UITs that we no longer believe are necessary to collect on a census form because, much like the items discussed above, the benefit of having such information is minimal to the Commission's oversight and examination functions while the burdens to these funds of reporting such information is costly.[613] Additionally, with respect to the Form N-SAR[614] item relating to closed-end fund monthly sales and repurchases of shares, this information would be reported on proposed Form N-PORT,[615] rather than proposed Form N-CEN.

The full list of items from Form N-SAR that would be included in Form N-CEN, as proposed, or would be eliminated is listed in Figure 2 below.

Musto, 2013. *What do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives*. The Journal of Finance, Vol. 68(1), 201-235 (2013). While this is evidence of a discrete instance where such information has been useful to a third party, based on staff experience with this information and Form N-SAR information generally, we believe that no longer requiring funds to gather and report this information appropriately balances the burden on funds of providing this information and the overall utility of the information to the Commission, investors and third parties. As noted below, we request comment generally on whether any information items not currently being proposed to be carried over from Form N-SAR should be included on Form N-CEN.

612 *See generally* Items 57, 61, and 70-75 of Form N-SAR.

613 *See* Items 86, 93, 95, 97-100, 103-104, 109, 125-132 of Form N-SAR.

614 *See* Item 86 (closed-end funds) of Form N-SAR; *see also* Item 28 (management investment companies generally) of Form N-SAR.

615 *See* Item B.6 of proposed Form N-PORT.

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
1	Registrant information	✓			
2	Registrant address	✓			
3	First filing	✓			
4	Final filing	✓			
5	SBIC identification	✓			
6	UIT information	✓			
7	Series or multiple portfolio company		✓		
	ALL MANAGEMENT INVESTMENT COMPANIES EXCEPT SBICS				
8	Investment adviser	✓			
10**	Administrator	✓			
11	Principal underwriter	✓			
12	Shareholder servicing agent	✓			
13	Independent public accountant	✓			
14	Broker or dealer which is an affiliated person	✓			
15	Custodian arrangements	✓			
18**	Central depository or book-entry system		✓		
19	Family of investment companies		✓		

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
20	Brokerage commissions paid on portfolio transactions		✓		
21	Aggregate brokerage commissions	✓			
22	Portfolio transactions with entities acting as principal		✓		
23	Aggregate principal purchase/sale transactions		✓		
24	Holding of securities of registrant's regular brokers or dealers			✓	
25	Holding of securities of registrant's regular brokers or dealers			✓	
26	Considerations affecting participation of brokers or dealers				✓
27	Open-end investment company	✓			
28	Monthly sales and repurchases of registrant's/series ' shares			✓	
29	Registrant/series imposing a front-end sales load			✓	

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
30	Total front-end sales load collected by underwriters and sales load rates				✓
31	Net sales loads retained and paid out by underwriters				✓
32	Net amount paid to unaffiliated dealers				✓
33	Net amount paid to retail sales force				✓
34	Deferred or contingent deferred sales loads			✓	
35	Deferred or contingent deferred sales loads collected				✓
36	Deferred or contingent deferred sales loads retained				✓
37	Redemption fees			✓	
38	Redemption fees collected				✓
39	Account maintenance fees			✓	
40	Registrant/series using its assets directly to make payments under a 12b-1 plan			✓	

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
41	Direct use of assets under 12b-1 plan			✓	
42	Percentage of payments under the 12b-1 plan			✓	
43	Payments under the 12b-1 plan			✓	
44	Unreimbursed payments under the 12b-1 plan				✓
45	Advisory contract		✓		
46	More than one investment adviser		✓		
47	Advisory fee based on percentage of assets			✓	
48	Contractual advisory fee rate			✓	
49	Advisory fee based on percentage of income			✓	
50	Advisory fee based on percentage of income and assets			✓	
51	Performance based advisory fee			✓	
52	Advisory fee based on assets, income or performance			✓	

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
53	Expense limitations or reductions		✓		
54	Services supplied by investment advisers or administrators				✓
55	Overdrafts and bank loans				✓
56	Advisory clients			✓	
57	Stock splits or stock dividends				✓
58	Fund classifications		✓		
59	Management investment company		✓		
60	Diversified investment company		✓		
61	Minimum required investment			✓	
62	Percentage of portfolio in various debt securities			✓	
63	Dollar weighted average maturity			✓	
64	Insured or guaranteed securities				✓
65	Insured or guaranteed securities attributed to value used in computing NAV				✓
66	Classification of funds investing in equity securities			✓	

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
67	Registrant/series investing primarily and regularly in a balanced portfolio of debt and equity securities			✓	
68	Investments in issuers engaged in production or distribution of precious metals or located outside the United States			✓	
69	Registrant/series as an index fund	✓			
70	Investment policies and practices			✓	
71	Portfolio purchases, sales, monthly average value, and turnover rate			✓	
72	Income and expenses			✓	
73	Dividends and distributions			✓	
74	Assets, liabilities, net assets			✓	
75	Computation of average net assets			✓	
76	Market price per share for closed-end investment companies	✓			
77	Attachments		✓		

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
78	Wholly-owned subsidiaries consolidated in report			✓	
79	"811" numbers for wholly-owned investment company subsidiaries consolidated in report				✓
80	Fidelity bonds in effect			✓	
81	Joint fidelity bond			✓	
82	Fidelity bond deductible			✓	
83	Fidelity bond claims	✓			
84	Losses that could have been filed as a claim under the fidelity bond				✓
85	Errors and omissions insurance policy	✓			
	CLOSED-END MANAGEMENT INVESTMENT COMPANIES EXCEPT SBICs				
86	Sales, repurchases, and redemptions of securities		✓		
87	Securities of registrant registered on a national securities exchange or listed on NASDAQ		✓		
88	Senior securities		✓		

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
		SBICs			
89	Investment adviser		✓		
90	Transfer agent	✓			
91	Independent public accountant	✓			
92	Custodian arrangements		✓		
93	Advisory clients other than investment companies			✓	
94	Family of investment companies		✓		
95	Sales, repurchases, and redemptions of securities		✓		
96	Securities of registrant registered on a national securities exchange or listed on NASDAQ		✓		
97	Income and expenses				✓
98	Dividends and distributions				✓
99	Assets, liabilities and shareholders' equity				✓
100	Computation of average net assets				✓

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
101	Market price per share	✓			
102	Attachments		✓		
103	Wholly-owned subsidiaries consolidated in report				✓
104	"811" numbers for wholly-owned investment company subsidiaries consolidated in report				✓
105	Fidelity bonds in effect			✓	
106	Joint fidelity bond			✓	
107	Fidelity bond deductible			✓	
108	Fidelity bond claims		✓		
109	Losses that could have been filed as a claim under the fidelity bond				✓
110	Errors and omissions insurance policy	✓			
			UITs		
111	Depositor	✓			
112	Sponsor		✓		
113	Trustee		✓		
114	Principal underwriter	✓			
115	Independent public accountant	✓			

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
116	Family of investment companies		✓		
117	Separate account of an insurance company		✓		
118	Series having effective registration statements	✓			
119	New series having effective registration statements	✓			
120	Value of new series that became effective	✓			
121	Series for which a current prospectus existed at the end of the period	✓			
122	New units of existing series	✓			
123	Value of new securities deposited in existing series	✓			
124	Value of units of prior series placed in portfolio of subsequent series	✓			
125	Amount of sales loads collected				✓
126	Amount of sales loads collected from secondary market operations				✓

INCLUSION OF FORM N-SAR DATA ITEMS IN PROPOSED FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WOULD BE AVAILABLE THROUGH OTHER SOURCES*	NO LONGER REQUIRED TO BE REPORTED BY ALL FUNDS
127	Classification of series and assets			✓	
128	Insured or guaranteed securities				✓
129	Insured or guaranteed securities				✓
130	Insured or guaranteed securities				✓
131	Total expenses			✓	
132	811 number of series included in filing			✓	
133	Divestment of securities	✓			

* While not available in proposed Form N-CEN, similar data is or would be available through other sources, such as proposed Form N-PORT or a fund's prospectus, statement of additional information, or financial statements.

** Items 9, 16, and 17 are reserved in Form N-SAR.

Figure 2

We request comment on the information requirements relating to items required in Form N-SAR, but not required in proposed Form N-CEN, including the following:

- Should proposed Form N-CEN require more detailed information relating to the fund's 12b-1 plan, as required by items 40 through 44 of Form N-SAR, considering detailed information regarding the fund's 12b-1 plan is otherwise disclosed in response to other reporting requirements?

- Should proposed Form N-CEN include financial information or balance sheet items, such as those required by item 72 of Form N-SAR?
- Despite the fact that certain items relating to fee information are required by other forms, should we include fee information in proposed Form N-CEN? If so, what specific information and why?
- Should proposed Form N-CEN include information relating to number of shares outstanding, total number of shareholder accounts, or average net assets during the reporting period as required by Items 74.U.1, 74.X, and 75 of Form N-SAR?
- Are there any other items currently in Form N-SAR that are proposed to be eliminated, which should be included in Form N-CEN? Which items and why? Are there any costs associated with eliminating these items?

F. Technical and Conforming Amendments

We are also proposing technical and conforming amendments to various rules and forms. As discussed above, our proposal would rescind Form N-Q and create new Form N-PORT. In order to implement this proposed change, we propose to revise Forms N-1A, N-2, and N-3 to refer to the availability of portfolio holdings schedules attached to reports on Form N-PORT and posted on fund websites rather than on reports on Form N-Q.[616] In addition, we propose to rescind 17 CFR 249.332 and revise the following rules to remove references to Form N-Q: 17 CFR 232.401, 17 CFR 270.8b-33, 17 CFR 270.30a-2, 17 CFR 270.30a-3, and 17 CFR 270.30d-1.

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[616] *See* Form N-1A, Item 16(f), Instruction 3(b) (we would remove references to Form N-Q) and Item 27(d), Instruction 4 (we would replace references to portfolio schedules reported on Form N-Q with references to portfolio schedules attached to reports on Form N-PORT or posted on fund websites); Form N-2, Item 24, Instruction 6.b (same); Form N-3, Instruction 6(ii) to Item 28(a) (same).

Our proposal would also rescind Form N-SAR and replace it with new Form N-CEN. In order to implement this proposed change, we propose to revise the following rules and sections to remove references to Form N-SAR and replace them with references to Form N-CEN: 17 CFR 232.301, 17 CFR 240.10A-1, 17 CFR 240.12b-25, 17 CFR 249.322, 17 CFR 249.330, 17 CFR 270.8b-16, 270.30d-1, and 17 CFR 274.101.[617]

Currently, reports on Form N-SAR are filed semi-annually by management investment companies as required by 17 CFR 270.30b1-1, and annually by UITs as required by 17 CFR 270.30a-1. Because our proposal would require reports on Form N-CEN to be filed annually by all registered investment companies, we propose to rescind 17 CFR 270.30b1-1 and revise 17 CFR 270.30a-1 to require all registered investment companies to file reports on Form N-CEN. We also propose to revise the following rules to remove references to 17 CFR 270.30b1-1 and add references to proposed rule 17 CFR 270.30a-1: 17 CFR 240.13a-10, 17 CFR 240.13a-11, 17 CFR 240.13a-13, 17 CFR 240.13a-16, 17 CFR 240.15d-10, 17 CFR 240.15d-11, 17 CFR 240.15d-13, and 17 CFR 240.15d-16.

In addition, as a result of the proposed new annual reporting requirement that would apply to all registered investment companies, we propose to rescind 17 CFR 270.30b1-2—which currently permits wholly-owned management investment company subsidiaries of management investment companies to not file Form N-SAR under certain circumstances—and propose new rule 17 CFR 270.30a-4—which would permit wholly-

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[617] Although we are proposing to delete references to Form N-SAR in 17 CFR 232.301, we are not proposing to replace them with references to Form N-CEN because the references in that section relate to specific portions of the EDGAR Filer Manual that would not be relevant to Form N-CEN.

owned management investment company subsidiaries of management investment companies to not file Form N-CEN under those same circumstances. We also propose to amend 17 CFR 200.800 to display control numbers assigned to information collection requirements for Forms N-PORT and N-CEN by the Office of Management and Budget pursuant to the Paperwork Reduction Act. As discussed further below, an agency may not conduct or sponsor, and a person is not required to respond to a collection of information unless it displays a currently valid OMB control number.[618]

Our proposed amendments to Regulation S-X would, among other things, require management investment companies to report new schedules for certain derivatives holdings.[619] To implement these changes, we propose to renumber the sections for schedules required to be reported by management investment companies and renumber the list of schedules provided in 17 CFR 210.6-10, which outlines the schedules to be reported by investment companies.[620] We propose conforming changes to references to

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[618] *See infra* Part V.

[619] Our proposal would require new schedules to be filed to report open futures contracts, open forward foreign currency contracts, and open swap contracts. *See* proposed new rules 12-13A, B, and C of Regulation S-X.

[620] Among other things, our proposed amendments would renumber the CFR sections for open option contracts and the summary schedule of investments in unaffiliated issuers from 17 CFR 210.12-12B and 17 CFR 210.12-12C to 17 CFR 210.12-13 and 17 CFR 210.12-B, respectively. These amendments would group the schedule for open option contracts written together with the new schedules for open futures contracts, open forward foreign currency contracts, and open swap contracts, and would list the summary schedule sequentially after the investments in securities of unaffiliated issuers. We would also amend 17 CFR 210.6-10 to, among other things, add new schedules V, VI, and VII for open futures contracts, open forward foreign currency contracts, and open swap contracts, respectively, and renumber schedule II for investments other than securities and schedule VI for summary of investments in securities of unaffiliated issuers as schedules VIII and IX, respectively. *See* proposed rule 6-10 of Regulation S-X (listing the schedules required to be filed by management investment companies, UITs, and face-amount certificate companies).

Regulation S-X in the following forms: Form N-1A, Form N-2, Form N-3, and Form N-14.[621]

We also propose to amend Form N-CSR to delete instructions addressing how certifications as to changes in the registrant's internal control over financial reporting should be handled during the transition period when certifications were being implemented on Form N-Q, because those instructions are no longer applicable.[622]

We also propose to remove paragraph (a) of 17 CFR 232.105, which currently requires electronic filers to submit Forms N-SAR and 13F in ASCII, and redesignate paragraphs (b) and (c) as (a) and (b), respectively. Our proposal would rescind Form N-SAR, and Form 13F has been submitted by electronic filers in XML, rather than ASCII, since 2013.[623]

We request comment on these technical and conforming amendments.

G. Compliance Dates

Currently, we anticipate the following compliance dates for our proposed amendments, as set forth below.

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621 *See* Form N-1A, Item 27(b)(1) (reference to Schedule VI would be changed to Schedule IX and reference to schedule I would be corrected to cite to the appropriate CFR section); Form N-2, Instruction 7 to Item 24 (we would update references to schedule VI); Form N-3, Instruction 7(i) and (ii) to Item 28(a) (we would update references to schedule VI).

622 Form N-CSR, Item 12 (the instruction to paragraph (a)(2) of that item would be removed).

623 *See* Notice to EDGAR Form13 Filers, *available at* http://www.sec.gov/divisions/investment/imannouncements/notice-form-13f-im.htm (requiring funds to file Form 13F according to EDGAR XML Technical Specifications beginning on April 29, 2013).

1. Form N-PORT, Rescission of Form N-Q, and Amendments to the Certification Requirements of Form N-CSR

Given the nature and frequency of filings on proposed Form N-PORT, if Form N-PORT is adopted, the Commission expects to provide for a tiered set of compliance dates based on asset size. Specifically, for larger entities—namely, funds that together with other investment companies in the same "group of related investment companies"[624] have net assets of $1 billion or more as of the end of the most recent fiscal year—we are proposing a compliance date of 18 months after the effective date to comply with the new reporting requirements. For these larger entities, we expect that eighteen months would provide an adequate period of time for funds, intermediaries, and other service providers to conduct the requisite operational changes to their systems and to establish internal processes to prepare, validate, and file reports on proposed new Form N-PORT with the Commission.[625]

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[624] For these purposes, we expect that the threshold would be based on the definition of "group of related investment companies," as such term is defined in rule 0-10 under the Investment Company Act. Rule 0-10 defines the term as "two or more management companies (including series thereof) that: (i) Hold themselves out to investors as related companies for purposes of investment and investor services; and (ii) Either: (A) Have a common investment adviser or have investment advisers that are affiliated persons of each other; or (B) Have a common administrator; and (2) In the case of a unit investment trust, the term group of related investment companies shall mean two or more unit investment trusts (including series thereof) that have a common sponsor." We believe that this broad definition would encompass most types of fund complexes and therefore is an appropriate definition for compliance date purposes.

[625] We believe that an eighteen month compliance period for larger groups of investment companies is an adequate amount of time for funds to implement proposed new Form N-PORT and make the necessary system and operational changes. We adopted a nine month compliance periods when we first required money market funds to report their portfolio holdings to the Commission on a monthly basis on Form N-MFP. Based upon our Form N-MFP compliance experience, and the larger number of non-money market fund filers, we believe that doubling the Form N-MFP compliance period to eighteen months for filing reports on Forms N-PORT is appropriate. *See* Money Market Fund Reform 2010 Release, *supra* note 13, at 10087.

For smaller entities (*i.e.*, funds that together with other investment companies in the same "group of related investment companies" have net assets of less than $1 billion as of the end of the most recent fiscal year),[626] we are proposing to provide for an extra 12 months (or 30 months after the effective date) to comply with the new reporting requirements. We believe that smaller groups would benefit from this extra time to comply with the filing requirements for Form N-PORT and would potentially benefit from the lessons learned by larger investment companies and groups of investment companies during the adoption period for Form N-PORT.[627]

2. Form N-CEN and Rescission of Form N-SAR

If Form N-CEN and the related proposals are adopted, we are proposing a compliance date of 18 months after the effective date to comply with the new reporting requirements. We expect that eighteen months would provide an adequate period of time for funds, intermediaries, and other service providers to conduct the requisite operational changes to their systems and to establish internal processes to prepare, validate, and file reports on proposed Form N-CEN with the Commission. We are proposing the same

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[626] Based on staff analysis of data obtained from Morningstar Direct, as of March 31, 2015, we estimate that a $1 billion assets threshold would provide an extended compliance period to more than 66% of the fund groups, but only 0.6% of all fund assets. We therefore believe that the $1 billion threshold would appropriately balance the need to provide smaller groups of investment companies with more time to prepare for the initial filing of reports on Form N-PORT, while still including the vast majority of fund assets in the initial compliance period.

[627] We likewise intend to rescind Form N-Q (referenced in 17 CFR 274.130) and the amendments to the certification requirements of Form N-CSR (referenced in 17 CFR 274.128) with a timing that is consistent with this proposal.

compliance date for the related amendments to other rules and forms we are proposing today.[628]

Unlike Form N-PORT, we do not expect to provide for a tiered compliance date based on asset size. We believe that it is less likely that smaller fund complexes would need additional time to comply with the requirements to file Form N-CEN because the requirements are similar to the current requirements to file Form N-SAR, and we expect that filers will prefer the updated, more efficient filing format of Form N-CEN. We are therefore proposing to require all funds, regardless of size, to file reports on Form N-CEN with the same compliance period.

3. Option for Website Transmission of Shareholder Reports

Proposed rule 30e-3, if adopted, would permit (but not require) a fund to satisfy requirements under the Act and rules thereunder to transmit reports to shareholders if the fund makes the reports and certain other materials accessible on its website. As reliance on the rule would be optional, we believe a compliance period would not be necessary. Therefore, we expect that funds would be able to rely on the rule immediately after the effective date.

4. Regulation S-X and Related Amendments

As discussed above, our proposed amendments to Regulation S-X are largely consistent with existing fund disclosure practices. As such, we do not expect that fund, intermediaries, or service providers would require significant amounts of time to modify systems or establish internal processes to prepare financial statements in accordance with

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[628] We similarly intend to rescind Form N-SAR (referenced in 17 CFR 274.101) with a timing that is consistent with this proposal.

our proposed amendments to Regulation S-X. Accordingly, we are proposing a compliance date for our proposed amendments to Regulation S-X of eight months after the effective date. We expect the same compliance date would apply to conforming amendments related to our proposed amendments to Regulation S-X, including the related amendment we are proposing today.

5. Request for Comment

We request comment on the compliance dates discussed above.

- How, if at all, should the proposed compliance dates be modified? What factors should we consider when setting the compliance dates for the proposed rules and forms?
- We request comment on our proposed tiered compliance dates for filings on Form N-PORT. Is a threshold of $1 billion based on the net assets of funds together with other investment companies in the same "group of related investment companies" as of the end of the most recent fiscal year appropriate? Should the threshold be higher or lower?[629] Should the threshold include aggregation of net assets with other investment companies in the same "group of related investment companies?" Why or why not? In lieu of "group of related investment companies," should aggregation be based on a different set of related companies? For example, should aggregate assets be based on "family of investment companies," as such term defined in instruction 1(a) to Item 17 of Form N-1A or

[629] Based on staff analysis of data obtained from Morningstar Direct, as of March 31, 2015, we estimate that a threshold of $100 million would include 38% of fund firms and 0.1% of all fund assets. A threshold of less than $3 billion would include 76.9% of fund firms and 1.5% of fund assets.

"fund complex" as defined in instruction 1(b) to Item 17 of Form N-1A? Should we require administrator-sponsored funds to aggregate assets for purposes of this threshold regardless of whether the individual funds (or series thereof) do not hold themselves out to investors as related companies for purposes of investment and investor services? Why or why not?

- With respect to Form N-PORT, is our compliance date of eighteen months for larger filers appropriate? If not, what length of time would be appropriate for compliance with Form N-PORT? Would a shorter or longer compliance date be appropriate? For example, would a compliance date of 15 months be sufficient? Conversely, would funds need more time to comply, such as 20 months? Is our 12 month extension of the compliance period for smaller entities appropriate? If not, what length of time would be appropriate for compliance with Form N-PORT? Would a shorter or longer extension, such as 9 months or 15 months, be appropriate? How do we appropriately consider the benefits and costs to receiving the information more quickly and the potential costs and benefits associated with a shorter or longer compliance period?
- Should the Commission consider the implementation of reporting on Form N-PORT initially through a voluntary pilot program? If so, what length of time would be needed for funds and their service providers to appropriately test their reporting procedures?
- Is our eighteen-month compliance period for Form N-CEN appropriate? If not, what length of time would be appropriate? Would a shorter or longer compliance date be appropriate? For example, would a compliance date of 15 months be

sufficient? Conversely, would funds need more time to comply, such as 20 months? Should the compliance period for Form N-CEN mirror that for Form N-PORT, or should we consider different compliance periods? Should we adopt a tiered compliance period for Form N-CEN? Why or why not?

- We are proposing to not have a compliance period for the option for website transmission of shareholder reports under proposed rule 30e-3. Is this appropriate?
- Is our eight-month compliance period for our proposed amendments to Regulation S-X adequate? If not, what length of time would be adequate and why?

III. GENERAL REQUEST FOR COMMENT

We request and encourage any interested person to submit comments regarding the proposed rules and forms, specific issues discussed in this release, and other matters that may have an effect on the proposed rules and forms. With regard to any comments, we note that such comments are of particular assistance to our rulemaking initiative if accompanied by supporting data and analysis of the issues addressed in those comments.

IV. ECONOMIC ANALYSIS

A. Introduction

The Commission is sensitive to the economic effects, including the benefits and costs and the effects on efficiency, competition, and capital formation that will result from the proposed changes to the current reporting regime. Changes to the current reporting regime include proposed Form N-PORT, the rescission of Form N-Q, amendments to the certification requirements for Form N-CSR, amendments to Regulation S-X, the proposed rule governing electronic transmission of shareholder

reports, proposed Form N-CEN, and the rescission of Form N-SAR. The economic effects of the proposed changes are discussed below.

The Commission is proposing to modernize the content and format requirements of reports and disclosures by funds, and the manner in which information is filed with the Commission and disclosed to the public. The intent of the proposal is to enhance the Commission's ability to effectively oversee and monitor the activities of investment companies in order to better carry out its regulatory functions and to aid investors and other market participants to better assess the benefits, costs, and risks of investing in different fund products. In summary, and as discussed in greater detail in Part II above, the Commission is proposing the following changes to its rules and forms:

- We propose to require registered management investment companies and ETFs organized as UITs, other than money market funds or SBICs, to report monthly portfolio information in a structured data format on a proposed new form, Form N-PORT.
- Because we believe that monthly portfolio reports on Form N-PORT would render quarterly portfolio reports on current Form N-Q unnecessarily duplicative, we are proposing to rescind Form N-Q. We also propose to lengthen the look-back for Sarbanes-Oxley certifications on Form N-CSR to six months to cover the gap in certification coverage that would otherwise occur once Form N-Q is rescinded.
- We propose to revise Regulation S-X to require new, standardized enhanced disclosures regarding fund holdings in certain derivatives instruments; update the

disclosures for other investments; and amend the rules regarding the general form and content of fund financial statements.

- We propose new rule 30e-3 under the Investment Company Act, which would allow funds to satisfy shareholder report transmission requirements by posting such reports on their own websites if they meet certain conditions, including posting quarterly portfolio holdings on their websites and notifying investors of its availability.
- We propose to rescind Form N-SAR, the form on which funds currently report census-type information on a semi-annual basis, and replace it with Form N-CEN, which would require the annual reporting of similar and additional information in an updated, structured format.

The current disclosure of information by funds serves as the baseline against which the costs and benefits as well as the impact on efficiency, competition, and capital formation of this proposal are discussed. The baseline includes the current set of requirements for funds to file reports on Forms N-CSR, N-Q, and N-SAR with the Commission and the content of such reports, including Regulation S-X, and in particular, its schedule of investments. The baseline also includes guidance from Commission staff and other industry groups that has established industry practices for the disclosure of a fund's schedule of investments and financial statements, and includes Commission guidance that permits funds to transmit these materials electronically today provided that certain other conditions are met. Lastly, the baseline includes the current practice of some funds to voluntarily disclose additional information. For example, some funds disclose monthly or quarterly portfolio investment information on their websites or to

third-party information providers, and disclose additional information (*e.g.*, particular information on derivative positions) in fund financial statements that is not currently required under Regulation S-X. The parties that would be affected by the proposed amendments are funds that have registered or will register with the Commission; the Commission; and other current and future users of fund information including investors, third-party information providers, and other potential users; and other market participants that could be affected by the change in fund disclosures.

We discuss separately below the economic effects of each part of the proposal: the introduction of Form N-PORT, rescission of Form N-Q, amendments to the certification requirements for Form N-CSR, amendments to Regulation S-X, the electronic transmission of shareholder reports, and the introduction of Form N-CEN and the rescission of Form N-SAR. We identify for each part of the proposal the baseline from which the economic effects will be discussed and the parties most likely to be affected.

As noted above, the assets of registered investment companies exceeded $18 trillion at year-end 2014, having grown from about $4.7 trillion at the end of 1997.[630] In addition, approximately 90 million individuals own mutual funds, representing 53.2 million or 43.3% of U.S. households.[631] Among investment companies, we estimate that, as of December 2014, there were 3,146 investment companies registered with the Commission, of which 1,636 were open-end funds, 780 were closed-end funds (including

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[630] *See supra* note 4.

[631] *See id.*

one SBIC), and 727 were UITs.[632] We further estimate that those registered funds included 16,619 series thereof, of which 1,411 were exchange-traded funds, 528 were money market funds, 5,381 were UITs, and 9,299 were other funds.[633] The following table summarizes the entities likely to be affected by the proposed forms, rescissions, and amendments.

AFFECTED PARTIES

		FUNDS			UITS	
		MONEY MARKET FUNDS	SBICs	OTHER FUNDS	ETFs	OTHER UITs
CURRENT	FORM N-SAR	✓	✓	✓	✓	✓
	FORM N-CSR	✓	✓	✓		
	FORM N-Q	✓		✓		
AS PROPOSED	FORM N-PORT			✓	✓	
	FORM N-CEN	✓	✓	✓	✓	✓
	FORM N-CSR	✓	✓	✓		
	FORM N-SAR	RESCINDED				
	FORM N-Q	RESCINDED				

Figure 3

The Commission relies on information included in reports filed by funds to monitor trends, identify risks, inform policy and rulemaking, and assist Commission staff in examination and enforcement efforts of the asset management industry. An essential factor to the Commission's ability to carry out its regulatory functions is regular, timely

[632] Based on data obtained from registrants' filings with the Commission on Form N-SAR.

[633] Based on data obtained from the Investment Company Institute. *See* http://www.ici.org/research/stats.

information about portfolio holdings and general, census information about funds. In general, this proposal would modernize the fund reporting regime and, among other effects, would result in an increased transparency of fund portfolios and investment practices. The increased transparency would improve the ability of the Commission to fulfill its regulatory functions. These functions include the development of policy and guidance, the staff's review of fund registration statements and disclosures, and the Commission's examination and enforcement programs. The increased transparency would also improve the ability of investors to select funds for investment, and therefore improve their ability to allocate capital across funds and other investments to more closely reflect their investment risk preferences. Increased transparency would also enhance competition among funds to attract investors.

At the outset, the Commission notes that, where possible, it has sought to quantify the costs, benefits, and effects on efficiency, competition, and capital formation expected to result from each part of the proposal and its reasonable alternatives. As discussed in further detail below, in many cases the Commission is unable to quantify the economic effects because it lacks the information necessary to provide a reasonable estimate.

The economic effects of the proposal depend upon a number of factors that we cannot estimate or quantify, such as the extent to which investor protection would increase along with the ability of the Commission to oversee the fund industry; the amount of new information that would become available as a result of requiring such information in regulatory filings (as opposed to information that is provided voluntarily); the increase in the availability of the information to all investors, institutional and individual, as a result of the improved structured format of the information; and the

extent to which investors are able to use the information to make more informed investment decisions either through direct use or through third-party service providers. Therefore, much of the discussion below is qualitative in nature although we try to describe where possible the direction of these effects.

B. Form N-PORT, Rescission of Form N-Q, and Amendments to Form N-CSR

a. Introduction and Economic Baseline

Form N-PORT, as proposed, would require registered management investment companies and ETFs organized as UITs, other than money market funds or SBICs, to report portfolio investment information to the Commission on a monthly basis. As discussed, only information reported for the last month of each fiscal quarter would be made available to the public in order to minimize potential costs associated with making the information public, including front-running or reverse engineering of a fund's investment strategies. Reports would be filed in a structured format using XML to allow for easier aggregation and manipulation of the data. As discussed above, we are also proposing to rescind Form N-Q but require that funds attach their complete portfolio holdings to Form N-PORT for the first and third fiscal quarters in accordance to Regulation S-X. We are also proposing to amend the form of certification in Form N-CSR to require each certifying officer to state that he or she has disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year to fill the gap in certification coverage that would otherwise occur once Form N-Q is rescinded.[634]

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[634] Proposed Item 11(b) of Form N–CSR; proposed paragraph 5(b) of certification exhibit of Item 11(a)(2) of Form N–CSR.

The current set of requirements under which registered management investment companies (other than money market funds and SBICs) and ETFs organized as UITs publicly report their complete portfolio investments to the Commission on a quarterly basis and certain other information on a semi-annual basis,[635] as well as the current practice of some investment companies to voluntarily disclose portfolio investment information either on their websites or to third-party information providers on a more frequent basis, is the baseline from which we will discuss the economic effects of new Form N-PORT.[636] The parties that could be affected by the introduction of Form N-PORT are registered management investment companies (other than money market funds and SBICs) and ETFs organized as UITs, that have registered or will register with the Commission; the Commission; and other current and future users of investment company portfolio investment information including investors, third-party information providers, other interested potential users; and other market participants that could be affected by the change in fund disclosure of portfolio investment information.

Currently, the Commission requires registered management investment companies (other than money market funds and SBICs) to report their complete portfolio investments to the Commission on a quarterly basis.[637] These funds are required to

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635 Form N-PORT would also require information that is currently being reported on Form N-SAR such as information on fund flows, assets, and liabilities. The current requirement to report this information as part of Form N-SAR is also part of this baseline.

The baseline also includes the current obligation of Form N-Q filers to make certifications regarding (1) the accuracy of the portfolio holdings information reported on that form, and (2) the fund's disclosure controls and procedures and internal control over financial reporting.

636 Additionally, many funds currently provide additional information concerning derivatives investments, based on industry guidance and practices. *See* discussion *supra* Part II.C.2.

637 *See* General Instruction A to Form N-CSR; Item 6 of Form N-CSR; General Instruction A to Form N-Q; Quarterly Portfolio Holdings Adopting Release, *supra* note 19.

provide this information in reports on Form N-Q as of the end of the first and third fiscal quarters of each year[638] and in reports on Form N-CSR as of the end of the second and fourth fiscal quarters of each year.[639] Both forms require that the reported schedule of portfolio investments conform to the requirements of Regulation S-X, and the schedule for the close of the fiscal year must be audited (but those schedules for the other three fiscal quarters need not be).[640] These reports are generally required to be filed on the EDGAR system and are made publicly available upon receipt.[641] Reports on Form N-CSR may be filed up to 70 days after the end of the reporting period,[642] and reports on Form N-Q may be filed up to 60 days after the end of the reporting period.

Forms N-CSR and N-Q are required to be filed in HTML or ASCII/SGML format.[643] In order to prepare reports in HTML and ASCII/SGML, reporting persons generally need to reformat information from the way the information is stored for normal business use.[644] The resulting format, when rendered in an end user's web browser, is comprehensible to a human reader, but it is not suitable for automated processing. These formats do not allow the Commission or other interested data users to combine

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638 Item 1 of Form N-Q.

639 Item 6 of Form N-CSR.

640 Instruction to Item 6(a) of Form N-CSR; Item 1 of Form N-Q.

641 *See* rule 101(a)(i) of Regulation S-T [17 CFR 232.101(a)(i)].

642 Form N-CSR must be filed within 10 days after the shareholder report is sent to shareholders, and the shareholder report must be sent within 60 days after the end of the reporting period. Rule 30b2-1(a); rule 30e-1(c).

643 *See* rule 301 of Regulation S-T; EDGAR Filer Manual (Volume II) version 27 (June 2014), at 5-1.

644 In so doing, reporting persons typically strip out incompatible metadata (*i.e.*, syntax that is not part of the HTML or ASCII/SGML specification) that their business systems use to ascribe meaning to the stored data items and to represent the relationships among different data items.

information from more than one report in an automated way to, for example, construct a database of fund portfolio positions without additional formatting.

The economic effects from the introduction of new Form N-PORT would largely result from the disclosure of portfolio investment information in a structured format, as well as the additional information that investment companies would report. The economic effects would depend on the extent to which the portfolios and investment practices of investment companies become more transparent as a result of the increase in the amount and availability of portfolio investment information, and the ability of Commission staff and all investors to utilize the structured data. The current reporting requirements for investment companies, however, reduce the ability of Commission staff to evaluate the potential economic effects. For example, the non-structured format of reported portfolio investment information, the absence of information to identify securities, and reporting inconsistencies between investment companies all reduce the ability of Commission staff to aggregate information across the fund industry and to evaluate the economic effects of the proposal.

The proposal would increase the amount of portfolio investment information available for some investment companies more so than others. For example, investment companies that utilize derivatives as part of their investment strategy, or that otherwise engage in alternative strategies, would have more information become available describing their businesses than other investment companies. Information from Form N-SAR provides some indication as to the current use of derivatives by investment companies. Form N-SAR requires investment companies to identify permitted investment policies, and if permitted, investment policies engaged in during the reporting

period. As of the second half of 2014, on average 75.4% of investment companies reported as permitted investment policies involving the writing or investing in options or futures, and on average 5.2% of investment companies reported engaging in each one of these policies during the report period.[645] In addition, the total net assets of alternative funds from which more information would become available were as of year-end 2014 approximately $200 billion or 1.2% of the total net assets of the mutual fund market.[646] Although the percentage of net assets of alternative funds relative to the mutual fund market is currently small, the percentage of flows to alternative funds was 10.2% in 2013 and 4.3% in 2014.[647]

b. Benefits

As discussed, Form N-PORT would improve the information that registered management investment companies and ETFs organized as UITs (other than money market funds and SBICs) disclose to the Commission. The increase in the reporting

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[645] *See* Item 70 of Form N-SAR for a list of permitted investment policies, and if permitted, the investment policies engaged in during the reporting period. The percentages are calculated from the percentage of funds that report affirmatively to either of the two parts for Items 70.B though 70.I. There is little difference in the proportion of investment companies that reported as permitted the investment practices relating to Items 70.B through 70.I. The greatest proportion of funds reported engaging in writing or investing in stock index futures (13.1%) and engaging in writing or investing in interest rate futures (12.0%), and the smallest proportion of funds reported engaging in writing or investing in other commodity futures (1.7%) and engaging in writing or investing in options on stock index futures (0.9%). Aggregate condensed balance sheet information reported on Form N-SAR indicates that funds held $2.6 billion in options on equities and options on all futures (Items 74.G and 74.H) or 0.013% of net assets from the second half of 2014. Aggregate condensed balance sheet information reported on Form N-SAR from the second half of 2014 also indicates that funds had $55.9 billion in short sales (Item 74.R.(2)) and $4.2 billion in written options (Item 74.R.(3)), or 0.285% and 0.021% of net assets, respectively. The estimates are approximate.

[646] *See supra* note 30. These statistics were obtained from staff analysis of Morningstar Direct data, and are based on fund categories as defined by Morningstar.

[647] *See id.*

frequency, the update to the structure of the information that reporting funds would disclose, and the additional information not currently disclosed, discussed in further detail below, would improve the ability of the Commission to understand, analyze, and monitor the fund industry. We believe that the information we receive on these reports would facilitate the oversight of funds and would assist the Commission, as the primary regulator of such funds, to better effectuate its mission to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation, through better informed policy decisions, more specific guidance and comments in the disclosure review process, and more targeted examination and enforcement efforts.

To the extent that monthly portfolio investment information is not currently available, the requirement that all investment companies make available portfolio investment information on a monthly basis to the Commission would improve the ability of the Commission to oversee investment companies by increasing the timeliness of the information available, and by providing a larger number of data points, would increase the ability of Commission staff to identify trends in investment strategies and fund products as well as industry outliers.[648] As discussed above, the quarterly portfolio reports that the Commission currently receives on Forms N-Q and N-CSR could become stale due to the turnover of portfolio securities and fluctuations in the values of the

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[648] *See, e.g.*, *supra* text following note 169. Although likely not a significant effect, the increase in the frequency of portfolio investment disclosure to the Commission could also reduce the ability of investment companies to alter or "window-dress" portfolio investments in an attempt to disguise investment strategies and risk profiles that are not consistent with the disclosures in registration statements and shareholder reports. The incentives for managers to window-dress in an attempt to mislead investors would not change because the frequency of public disclosure of portfolio investment information would remain the same. *See, e.g.*, Vikas Agarwal, Gerald D. Gay, and Leng Ling, *Window Dressing in Mutual Funds*, The Review of Financial Studies, Vol. 27(11), 3133-3170 (2014).

portfolio's investments. Requiring monthly reports on Form N-PORT would decrease the delay between fund reports, so that the Commission would have more timely information than it has currently; portfolio investment information that is more timely would improve the ability of Commission staff to identify risks a fund is facing, particularly during times of market stress.

The ability of Commission staff to effectively use the information reported in Form N-PORT is dependent on the ability of staff to compile and aggregate information into a single database that can then be utilized to conduct industry-wide analyses. Otherwise, the information would only improve the ability of staff to analyze a single or a small number of funds at any one time. The structuring of the information in an XML format would improve the ability of the Commission to compile and aggregate information across all funds, and to analyze individual funds, a subset of funds, or the fund industry as a whole, and would increase the overall efficiency of staff to analyze the information. For example, the ability to compare portfolio investment information across reporting funds or for a single fund across report dates would improve the ability of the Commission to identify funds for examination and to identify trends in the fund industry.

The structuring of portfolio investment information may also improve the quality of the information disclosed by imposing constraints on how the information would be provided. A feature of XML is a built-in validation framework that can provide precise constraints as to how the information could be provided. These data checks, which are not available in the current formats for Form N-CSR and Form N-Q, are important to ensure that the reports contain information that is accurate and consistent across filings, and therefore usable by Commission staff. An improved, structured format may also

promote additional efficiency among investment companies to the extent that the new reporting requirements encourage an update and integration of systems, and standardized formats for the disclosure and transmission of filings.

Form N-PORT would require information that is not currently required to be reported to the Commission, including portfolio and position level risk-sensitivity measures and additional information describing derivatives, securities lending activities, repurchase and reverse repurchase agreements, the pricing and liquidity of securities, and information regarding fund returns and flows. The information would increase the ability of Commission staff to understand the use of these products and activities as part of a fund's investment strategy, as well as the risks of a particular fund, a group of funds, and the fund industry.

The proposed requirement to report portfolio- and position-level risk sensitivity measures would provide Commission staff with a set of estimates that summarizes the risk exposures of a fund. The risk sensitivity measures improve the ability of Commission staff to efficiently analyze information for all funds and identify those funds not only with specific risk exposures but also risk exposures that appear to be outliers among peer funds. An ability to efficiently identify funds based on exposure to certain risks would improve the Commission's ability to analyze fund industry trends, monitor funds, and, as appropriate, engage in further inquiry or timely outreach in case of a market or other event. Commission staff could also use these measures to determine whether additional guidance or policy measures are appropriate to improve disclosures.

The calculation of portfolio- or position-level measures of risk for some derivatives, including derivatives with unique or complicated payoff structures,

sometimes requires time-intensive computational methods or additional information that Form N-PORT would not require. As discussed above, based on staff experience and outreach, we understand that most funds calculate risk measures for such securities. Accordingly, we believe that requiring funds to provide these measures is more efficient than requiring funds to provide all of the information that might be necessary for the Commission, investors, or other potential users to calculate these measures. The requirement for investment companies to provide risk measures for derivatives, at the position-level and at the portfolio-level, would therefore improve the ability of staff to efficiently identify the risk exposures of funds regardless of the types of derivatives held or that could be introduced to the marketplace. In addition, the requirement for investment companies to provide portfolio-level measures of risk would also improve the ability of staff to efficiently identify interest rate and credit spread exposures at the fund level and conduct analyses without first aggregating position-level measures.

Form N-PORT would require funds to provide the contractual terms for debt securities and many of the more common derivatives including options, futures, forwards, and swaps; the reference instrument for all convertible debt securities and derivatives, and information describing the size of the position. The information would provide Commission staff an ability to identify funds with interest rate risk exposure or exposure to other risks such as those pertaining to a company, industry, or region.

As discussed, for securities lending activities and reverse repurchase agreements, Form N-PORT would require counterparty identification information, contractual terms, and information describing the collateral and reinvestment of the collateral. The additional information could improve the ability of Commission staff to assess fund

compliance with the conditions that they must meet to engage in securities lending, as well as better analyze the extent to which funds are exposed to the creditworthiness of counterparties, the loss of principal of the reinvested collateral, and leverage creation through the reinvestment of collateral.

Form N-PORT would also require additional identification information regarding the reporting fund, the issuers of fund investments, and the investments themselves, including the reference instruments for convertible debt securities and derivatives investments. The additional identification information would benefit the Commission by improving the ability of staff to link the information from Form N-PORT with information from other sources, such as Form N-CEN, that also identify market participants and investments with these identifiers. The additional identification information would be especially important to identify the issuers of fund investments and the investments themselves. The information would improve the ability of Commission staff, from the current requirement to provide just the issuer name, to identify and compare funds that have exposures to particular investments or issuers regardless of the whether the exposure is direct or indirect such as through a derivative security.

Investors, third-party information providers, and other potential users would also experience benefits from the introduction of Form N-PORT. While the frequency of public disclosure of portfolio information would not change, we believe that the structured format of this information would allow investors and other potential users to more efficiently analyze portfolio information. Investors and other potential users would also have quarterly disclosure of additional information that is currently not included in the schedule of investments reported on Form N-Q and Form N-CSR. The additional

information as well as the structure of the information would increase the transparency of funds' investment strategies and improve the ability of investors and other potential users to more efficiently identify the risk exposures of the fund.

Form N-PORT would benefit investors, to the extent that they use the information, to better differentiate investment companies based on their investment strategies and other activities. For example, investors would be able to more efficiently identify funds that use derivatives and the extent to which they use derivatives as part of their investment strategies.[649] In general, we expect that institutional investors and other market participants would directly use the information from Form N-PORT more so than individual investors. As discussed, the format of Form N-PORT is not designed to be human readable and the amount of information could result in reports that are voluminous. The Commission therefore has endeavored to mitigate the potential loss of information to individual investors from the rescission of From N-Q through the additional disclosure requirements for investment companies as part of this proposal, including the requirement for investment companies to attach to Form N-PORT complete portfolio holdings in accordance with Regulation S-X for the first and third fiscal quarters.[650] Individual investors, however, could indirectly benefit from the information in Form N-PORT to the extent that third-party information providers and other interested parties are able to obtain, aggregate, provide, and report on the information. Individual investors could also indirectly benefit from the information in Form N-PORT to the

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[649] Form N-PORT would also eliminate the reporting gap between money market funds, which report portfolio investment information in an XML format on Form N-MFP, and funds engaging in similar investment strategies such as ultra-short bond funds, which would be required to file reports on Form N-PORT.

[650] *See* discussion *supra* Part II.A.2.j.

extent that other entities, including investment advisers and broker-dealers, utilize the information to help investors make more informed investment decisions.

Portfolio investment information that investment companies report to the Commission is informative in describing the ongoing investment strategy of the fund,[651] and investors could use the information to select funds based on security selection, industry focus, level of diversification, and the use of leverage and derivatives.[652] An increase in the ability of investors to differentiate investment companies would allow investors to allocate capital across reporting funds more in line with their risk preferences and increase the competition among funds for investor capital. In addition, by improving the ability of investors to understand the risks of investments and hence their ability to allocate capital across funds and other investments more efficiently, the introduction of Form N-PORT could promote capital formation.

Rescission of Form N-Q, along with its certifications of the accuracy of the portfolio schedules reported for each fund's first and third fiscal quarters, may result in some cost savings by funds in terms of administrative or filing costs. However, we expect any such savings, if any, to be minimal, because under our proposal each fund would still be required to file portfolio schedules prepared in accordance with §§210.12-

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[651] Academic research indicates that the portfolio investment information funds provide to the Commission, such as on Form N-CSR and Form N-Q, has value even though the information is publicly available only after a time-lag. *See infra* notes 664-667. Just as investors can use the information to front-run or copycat/reverse engineer the investment strategy of a reporting fund, investors of funds can also use the information to identify funds for investment.

[652] Empirical research shows that fund flows are sensitive to many factors including past fund performance and investor search costs. *See, e.g.*, Erik R. Sirri and Peter Tufano, *Costly Search and Mutual Fund Flows*, The Journal of Finance, Vol. 53(5), 1589-1622 (1998); Zoran Ivković and Scott Weisbenner, *Individual Investor Mutual Fund Flows*, Journal of Financial Economics, Vol. 92, 223-237 (2009); George D Cashman, *Convenience in the Mutual Fund Industry*, Journal of Corporate Finance, Vol. 18, 1326-1336 (2012).

12 to 12-14 of Regulation S-X for the fund's first and third fiscal quarters, by attaching those schedules as attachments to its reports on Form N-PORT for those reporting periods.

c. Costs

Form N-PORT, as proposed, would require registered management investment companies and ETFs organized as UITs, other than money market funds or SBICs, to incur one-time and ongoing costs to comply with the new filing requirements. Funds would incur additional ongoing costs to report portfolio investment information on a monthly basis on Form N-PORT instead of a quarterly basis as currently reported on Forms N-Q and N-CSR. Funds that voluntarily provide information to third-party information providers and on its website, including monthly portfolio investments, and additional information in fund financial statements, including additional information regarding derivatives similar to the requirements that we are proposing today, would bear fewer costs as a result of the proposal than those that do not.[653] The Commission is aware that these funds would nonetheless likely incur additional costs on reports on proposed Form N-PORT than on voluntary submissions, such as validation and signoff processes, given that reports on Form N-PORT would be a required regulatory filing and would possibly require different data than the funds are currently providing to third-party

[653] Monthly portfolio investment information is available for approximately 45% of funds covered by The CRSP Survivor-Bias-Free US Mutual Fund Database as of the third quarter of 2014. The database covers more than 9,000 open-ended mutual funds during this time period. This estimate suggests that a large proportion of funds already report monthly portfolio investment information, although it is unclear whether monthly information is reported following each month or if information relating to several months is periodically reported at a later date. Calculated based on data from The CRSP Survivor-Bias-Free US Mutual Fund Database © 2015 Center for Research in Security Prices (CRSP®), The University of Chicago Booth School of Business.

information providers. Over time, the filings could become highly automated and could involve fewer costs.[654]

Funds would also incur costs to file reports on Form N-PORT in a structured format. Based on staff experience with other XML filings, however, these costs are expected to be minimal given the technology that would be used to structure the data.[655] XML is a widely used data format, and based on the Commission's understanding of current practices, most reporting persons and third party service providers have systems already in place to report schedules of investments and other information. Systems would be able to accommodate an alternative format such as XML without significant costs, and large-scale changes would likely not be necessary to output structured data files. In an effort to reduce some of the potential burdens on smaller entities, we are proposing to extend the compliance period to begin filing reports on Form N-PORT to thirty months after the effective date for groups of funds with assets under $1 billion.[656] The additional time could increase the ability of these investment companies to comply with the filing requirements by providing more time for system and operation changes and from observing larger fund groups.

Form N-PORT would also require the disclosure of certain information that is not currently required by the Commission. In some instances, such as in the case of

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[654] Costs related to such processes are included in the estimate below of the paperwork costs related to Form N-PORT, discussed below.

[655] *See, e.g.*, Form PF Adopting Release, *supra* note 14, at text following n.357 (discussing the costs to advisers to private funds of filing Form PF in XML format); Money Market Fund Reform 2010 Release, *supra* note 13, at nn.341-344 and accompanying text (discussing the costs to money market funds of filing reports on Form N-MFP in XML format).

[656] *See supra* Part II.G.1.

increased disclosures regarding derivatives investments and information concerning the pricing and liquidity of investments, the Commission is proposing to require parallel disclosures in the fund's schedule of investments; accordingly, we expect funds would generally incur one set of costs to adhere to the reporting of new information on Form N-PORT and in its schedule of investments. For other information, such as the reporting of particular asset classifications, identification of investments and reference instruments, and risk measures, the information would be disclosed on Form N-PORT only.

To the extent that our proposal would require information to be reported that is not currently contained in fund accounting or financial reporting systems, funds would bear one-time costs to update systems to adhere to the new filing requirements. The one-time costs would depend on the extent to which investment companies currently report the information required to be disclosed. The one-time costs would also depend on whether an investment company would need to implement new systems, such as to calculate and report risk-sensitivity measures, and to integrate information maintained in separate internal systems or by third parties to comply with the new requirements. Based on staff outreach to funds, we believe that, at a minimum, funds would incur systems or licensing costs to obtain a software solution or to retain a service provider in order to report data on risk metrics, as risk metrics are not required to be reported on the fund financial statements. Our experience with and outreach to funds indicates that the types of systems funds use for warehousing and aggregating data, including data on risk metrics, varies widely.

To the extent possible, we have attempted to quantify these costs. As discussed below, we estimate that funds would incur certain annual paperwork costs associated

with preparing, reviewing, and filing reports on Form N-PORT.[657] Assuming that 35% of funds (3,749 funds) would choose to license a software solution to file reports on Form N-PORT, we estimate an upper bound on the initial annual costs to funds choosing this option of $55,970 per fund[658] with annual ongoing costs of $46,745 per fund.[659] We further assume that 65% of funds (6,962 funds) would choose to retain a third-party service provider to provide data aggregation and validation services as part of the preparation and filing of reports on Form N-PORT, and we estimate an upper bound on the initial costs to funds choosing this option of $54,821 per fund[660] with annual ongoing

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[657] *See infra* Part V.A.1.

[658] *See infra* notes 736-739, 749 and accompanying text. This estimate is based upon the following calculations: $55,970 = $4,805 in external costs + $51,165 in internal costs ($51,165 = 15 hours x $303/hour for a senior programmer) + (39 hours x $312/hour for a senior database administrator) + (30 hours x $266/hour for a financial reporting manager) + (30 hours x $198/hour for a senior accountant) + (30 hours x $157/hour for an intermediate accountant) + (30 hours x $301/hour for a senior portfolio manager) + (24 hours x $283/hour for a compliance manager)). The hourly wage figures in this and subsequent footnotes are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[659] *See infra* notes 740, 749 and accompanying text. This estimate is based upon the following calculations: $46,745 = $4,805 in external costs + $41,940 in internal costs ($41,940 = (30 hours x $266/hour for a financial reporting manager) + (30 hours x $198/hour for a senior accountant) + (30 hours x $157/hour for an intermediate accountant) + (30 hours x $301/hour for a senior portfolio manager) + (24 hours x $283/hour for a compliance manager) + (24 hours x $312/hour for a senior database administrator)).

[660] *See infra* notes 743-745, 750 and accompanying text. This estimate is based upon the following calculations: $54,821 = $11,440 in external costs + $43,481 in internal costs ($43,481 = (30 hours x $303/hour for a senior programmer) + (46.5 hours x $312/hour for a senior database administrator) + (16.5 hours x $266/hour for a financial reporting manager) + (16.5 hours x $198/hour for a senior accountant) + (16.5 hours x $157/hour for an intermediate accountant) + (16.5 hours x $301/hour for a senior portfolio manager) + (16.5 hours x $283/hour for a compliance manager)).

costs of $38,746 per fund.[661] In total, we estimate that funds would incur initial annual costs of $515,537,918 and ongoing annual costs of $444,996,657.[662]

Although under the proposal there would be no change to the frequency or time-lag for which investment company security position information is publicly disclosed, the increase in the amount of publicly available information and the greater ability to analyze the information as a result of its structure may facilitate activities such as "front-running," "predatory trading," and "copycatting/reverse engineering of trading strategies" by other investors. For example, Form N-PORT would result in the disclosure of additional information, such as pertaining to derivatives and securities lending activities, which could more clearly reveal the investment strategy of reporting funds and its risk exposures. The structured format of portfolio investments disclosure could also improve the ability of other investors to obtain and aggregate the data, and identify specific funds to front-run or predatory trade. These activities could reduce the profitability from developing new investment strategies, and therefore could reduce innovation and impact competition in the fund industry.

Investors that trade ahead of funds could reduce the profitability of funds by increasing the price of fund purchases and by decreasing the price of fund sales. These activities can reduce the returns to shareholders who invest in actively managed funds,

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[661] *See infra* notes 746, 750 and accompanying text. This estimate is based upon the following calculations: $38,746 = $11,440 in external costs + $27,306 in internal costs ($27,306 = (18 hours x $266/hour for a financial reporting manager) + (18 hours x $198/hour for a senior accountant) + (18 hours x $157/hour for an intermediate accountant) + (18 hours x $301/hour for a senior portfolio manager) + (18 hours x $283/hour for a compliance manager) + (18 hours x $312/hour for a senior database administrator)).

[662] These estimates are based upon the following calculations: $591,495,332 = (3,749 funds x $55,970 per fund) + (6,962 funds x $54,821 per fund). $444,996,657 = (3,749 funds x $46,745 per fund) + (6,962 funds x $38,746 per fund).

making actively managed funds less attractive investment options.[663] Portfolio investment information, along with flow information, can also create opportunities for other market participants to front-run the sales of funds that experience large outflows and the purchases of funds that experience large inflows,[664] or create opportunities for other market participants to engage in predatory trading that could lead to further fund distress.[665]

A trading strategy that follows the publicly reported holdings of actively managed funds can also earn similar if not higher after expense returns.[666] An implication of this finding is that the public disclosure of portfolio investment information could induce free-riding by investors that use the information and reduce the potential benefit from developing new investment strategies and engaging in proprietary market research. The effect of free-riding would reduce the ability of an investment companies with longer investment horizons to benefit from researching investment opportunities and developing new strategies more so than investment companies with shorter investment horizons because of the increased likelihood that the disclosed portfolio investment information would reveal their long-term investment strategies.[667]

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[663] *See, e.g.*, Potential Effects of More Frequent Disclosure, *supra* note 172.

[664] *See, e.g.*, Joshua Coval and Erik Stafford, *Asset Fire Sales (and Purchases) in Equity Markets*, Journal of Financial Economics, Vol. 86, 479-512 (2007).

[665] *See, e.g.*, Markus K. Brunnermeier and Lasse Heje Pedersen, *Predatory Trading*, The Journal of Finance, Vol. 60(4), 1825-1864 (2005).

[666] *See, e.g.*, Mary Margaret Frank, James M. Poterba, Douglas A. Shackelford, and John B. Shoven, *Copycat Funds: Information Disclosure Regulation and the Returns to Active Management in the Mutual Fund Industry*, The Journal of Law and Economics, Vol. 47(2), 515-541 (2004).

[667] *See, e.g.*, Vikas Agarwal, Kevin Andrew Mullaly, Yuehua Tang, and Baozhong Yang, *Mandatory Portfolio Disclosure, Stock Liquidity, and Mutual Fund Performance*, The Journal

A comparison can be made between the economic effects from the introduction of Form N-PORT and the economic effects from the introduction of Form N-Q in May 2004 which increased the reporting frequency of portfolio investment information to the Commission from semiannual to quarterly. The introduction of Form N-Q resulted in an increase in the amount of information that could have been acted upon by other investors. For example, evidence indicates that the ability of copycat funds to outperform actively managed funds increased after the introduction of Form N-Q,[668] and additional evidence indicates that the performance of those funds with better previous performance or that invest in low-information stocks decreased following the introduction of Form N-Q.[669] The increase in the frequency of portfolio investment information as a result of Form N-Q resulted in an increase in the amount of portfolio investment information available. Although Form N-PORT would not increase the frequency of public disclosure, Form N-PORT would increase the amount of portfolio investment information available. In addition, Form N-PORT, unlike Form N-Q, would also increase the accessibility of the information as a result of its structured format.

We have endeavored to mitigate the potential for front-running, predatory trading, and copycatting/reverse engineering by other market participants by proposing to

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of Finance, ("Agarwal *et al*"), forthcoming (*available at* http://onlinelibrary.wiley.com/doi/10.1111/jofi.12245/pdf); Marno Verbeek and Yu Wang, *Better than the Original? The Relative Success of Copycat Funds*, Journal of Banking and Finance, Vol. 37, 3454-3471 (2013) ("Verbeek and Wang").

668 *See* Verbeek and Wang, *supra* note 667.

669 *See* Agarwal *et al*., *supra* note 667. Low information stocks include stocks with smaller market capitalization, less liquidity, and less analyst coverage. The authors also find that the liquidity of stocks with higher fund ownership increased following the introduction of Form N-Q. Although the increase in liquidity would benefit investors by reducing trading costs, this benefit stems as a result of the costly disclosure of potential investment opportunities.

maintain the status quo for the frequency and timing of disclosure of publicly available portfolio information. In addition, much, though not all, of the information that Form N-PORT would require, is already disclosed by reporting funds on Form N-CSR and Form N-Q.[670] The additional information and the structure of the information that would be required under Form N-PORT, however, would improve the ability of investors to obtain, aggregate, and analyze all fund investments. Thus, Form N-PORT could negatively affect actively managed funds by increasing the ability of other investors to copycat or front-run investment strategies, and in particular could negatively affect those funds that would have more additional information disclosed, such as funds that use derivatives as part of their investment strategies. The Commission has considered the needs of the Commission, investors, and other users of portfolio investment information and the potential that other investors may use the information to the detriment of the reporting funds.

Form N-PORT would require the disclosure of information that is currently nonpublic that could result in additional costs to funds and market participants. For example, Form N-PORT would require a fund to report the identities and weights of each of the individual components comprising the reference instruments underlying the fund's derivative investments, unless the reference instrument is an index whose components are publicly available on a website and are updated on that website no less frequently than quarterly, or the notional amount of the derivative represents 1% or less of the net asset value of the fund.[671] We understand that many indices used as reference instruments in

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[670] *See supra* note 27 and accompanying text.

[671] *See supra* note 123 and accompanying text.

derivative investments are proprietary to index providers, and are subject to licensing agreements between the index provider and the fund. Disclosing the components of a non-public index could result in costs to both the index provider, whose proprietary indexing strategy could be imitated, and the fund, whose investments could be front-run.[672] Moreover, disclosing the underlying components of such an index could subject the fund to one-time costs associated with renegotiating licensing agreements and the ongoing payment of fees in order to obtain the rights to disclose the components of the index.[673] Additionally, the increased transparency in proprietary indexes could ultimately decrease the incentives of index providers to license the use of such indices to funds as well as fund demand for securities products that incorporate these indices. Likewise, Form N-PORT, as well as the proposed amendments to regulation S-X, would require funds to report certain information regarding fees and financing terms for certain derivatives contracts, particularly OTC swaps, which are not currently required to be publicly disclosed. The increased transparency could increase the competition among swap and security-based swap dealers to offer favorable fees and financing terms, as the fees and financing terms offered to one fund would be known to other funds negotiating the terms of such contracts.

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672 *See* Antti Petajisto, *The Index Premium and its Hidden Cost for Index Funds*, Journal of Empirical Finance, Vol. 18, 271-288 (2011). Petajisto finds evidence that mechanically induced demand changes to demand, such as index fund rebalancing, can result in price effects. If predictable, then other investors could take advantage of the changes to the proprietary indexes by front-running future trades.

673 The Commission does not have information available to provide a reliable estimate of the increased costs of such licensing agreements because funds are currently not required to disclose the agreements or the components of the index.

As discussed above, although our proposal would rescind Form N-Q, it would also require funds to file portfolio schedules prepared in accordance with §§210.12-12 to 12-14 of Regulation S-X for the fund's first and third fiscal quarters, by attaching those schedules as attachments to its reports on Form N-PORT for those reporting periods. Although the schedules attached to Form N-PORT would be largely identical to the information currently reported on Form N-Q, under our proposal funds would have 30 days to prepare and file the attachments to Form N-PORT, as opposed to the 60 days that funds currently have to prepare, certify, and file reports on Form N-Q. The faster turnaround time may result in increased costs to funds, but we expect these costs may be mitigated by removing the requirement that funds certify this information.

Rescission of Form N-Q would also eliminate certifications of the accuracy of the portfolio schedules reported for the first and third fiscal quarters, and would also result in funds providing certifications regarding their disclosure controls and procedures and internal control over financial reporting semi-annually rather than quarterly. To the extent that such certifications improve the accuracy of the data reported, removing such certifications could have negative effects on the quality of the data reported. Likewise, if the reduced frequency of the certifications affects the process by which controls and procedures are assessed, requiring such certifications semi-annually rather than quarterly could reduce the effectiveness of the fund's disclosure controls and procedures and internal control over financial reporting are assessed. However, we expect such effects, if any, to be minimal because certifying officers would continue to certify portfolio holdings for the fund's second and fourth fiscal quarters and would further provide semi-

annual certifications concerning disclosure controls and procedures and internal control over financial reporting that would cover the entire year.

C. Amendments to Regulation S-X

a. Introduction and Economic Baseline

The proposed amendments to Regulation S-X would require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased option contracts; update the disclosures for other investments with conforming amendments, as well as reorganize the order in which some investments are presented; and amend the rules regarding the general form and content of fund financial statements, including requiring prominent placement of investments in derivative investments in a fund's financial statements, rather than allowing such schedules to be placed in the notes to the financial statements.[674] Finally, our amendments would require a new disclosure in the notes to the financial statements relating to a fund's securities lending activities.

The current set of requirements under Regulation S-X, as well as the current practice of many funds[675] to voluntarily disclose additional portfolio investment

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[674] *See supra* Part II.C. As discussed above, rule 12-13 of Regulation S-X requires limited generic information on the fund's investments other than securities. To address issues of inconsistent disclosures and lack of transparency, our proposal would standardize a fund's disclosures of open futures contacts, foreign currency forward contracts, and swaps. In addition, while many of the proposed amendments to Regulation S-X are similar to the proposed disclosures in Form N-PORT (*e.g,.* enhanced derivatives disclosures), the amendments to Regulation S-X would be investor-friendly, as the financial statements and schedule of investments are human-readable (as opposed to proposed Form N-PORT's structured data).

[675] As we discussed *supra* note 180, while "funds" are defined in the preamble as registered investment companies other than face amount certificate companies and any separate series

information in fund financial statements and to follow industry guidance and other industry practices, is the baseline from which we discuss the economic effects of amendments to Regulation S-X.[676] The parties that could be affected by the proposed amendments to Regulation S-X include funds that file or would file reports with the Commission and update or would update registration statements on file with the Commission, the Commission, current and future investors of investment companies, and other market participants that could be affected by the increase in the disclosure of portfolio investment information.

Regulation S-X prescribes the form and content of financial statements required in shareholder reports and registration updates. Today, Regulation S-X does not prescribe specific information to be disclosed under Regulation S-X for many investments in derivatives, which could result in inconsistent reporting between funds and reduced transparency of the information reported, and in some cases could result in insufficient information concerning the terms and underlying reference assets of derivatives to allow investors to understand the investment.

Many of the economic effects from the proposed amendments to Regulation S-X would largely result from an increase in investor ability to make investment decisions dependent on more transparent disclosure in shareholder reports and in the financial statements of registration statements. As discussed above, the economic effects would

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thereof—*i.e.*, management companies and UITs, we note that our proposed amendments to Regulation S-X apply to both registered investment companies and BDCs. *See supra* notes 264 and 265. Therefore, when discussing fund reporting requirements in the context of our proposed amendments to Regulation S-X, we are also including changes to the reporting requirements for BDCs.

676 *See* discussion *supra* Part II.C.

depend on the extent to which the portfolios and investment practices of investment companies become more transparent, and the ability of investors, and in particular individual investors, to utilize shareholder reports to make investment decisions. The economic effects would also depend on the extent to which investment companies already voluntarily provide disclosures that would be required by the proposed amendments. As a result of these factors, some of which are difficult to quantify or unquantifiable, the discussion below is largely qualitative although certain one-time and ongoing costs associated with the proposed amendments are quantified below.

b. Benefits

The amendments to Regulation S-X could benefit investors by updating the information funds disclose in the financial statements of registration statements and shareholder reports. Our proposed amendments could benefit investors through increased transparency into a fund's investments, particularly for individual investors that we would not expect to use the information in Form N-PORT because of its structured format. In particular, the additional information that Regulation S-X would require for open option contracts both written and purchased, open futures contracts, open forward foreign currency contracts, open swap contracts, and other investments would increase the transparency of the fund's portfolio investments and risk exposures.

Other amendments would also improve the transparency into the fund's investments. For example, we are proposing to require funds to identify each investment whose fair value was determined using significant unobservable inputs.[677] Likewise, we

[677] *See, e.g.*, proposed rule 12-13, n.7 of Regulation S-X; *see also* proposed rules 12-13A, n.5; 12-13B, n.3; 12-13C, n.6; and 12-13D, n.7 of Regulation S-X.

are proposing a requirement that funds identify illiquid securities,[678] as well as to separately identify investments that are restricted.[679] As discussed above, we believe that the effect of these proposed amendments would be to increase transparency into the liquidity of investments and help investors better understand how fund investments are valued.[680]

In certain circumstances, we are also requiring funds to separately list each of the investments comprising the referenced assets underlying swap[681] and option contracts.[682] We believe that increased disclosure of the investments underlying a referenced asset could benefit investors by making it easier for them to understand and evaluate the specific risk exposures of a fund from certain swap and option contracts.

We also believe that our proposed changes to the form and content of financial statements in Article 6 of Regulation S-X will similarly benefit investors, particularly individual investors, through greater transparency in a fund's financial statements. For example, we are proposing to require funds to disclose their investments in derivatives in the financial statements, as opposed to in the notes to the financial statements.[683] To the extent funds do not do this already, we believe that more prominent placement of investments in derivatives in the financial statements (immediately following the

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678 *See, e.g.*, proposed rule 12-13, n.8 of Regulation S-X; s*ee also* proposed rules 12-13A, n.6; 12-13B, n.4; 12-13C, n.7; and 12-13D, n.8 of Regulation S-X.

679 *See* proposed rule 12-13, n.6 of Regulation S-X; *see also* proposed rules 12-13A, n.4; 12-13B, n.2; 12-13C, n.5; and 12-13D, n.6 of Regulation S-X.

680 *See* Part II.C.2.a

681 *See* proposed rule 12-13C, n.3 of Regulation S-X; *see also* discussion *supra* Part II.C.2.d.

682 *See* proposed rule 12-13, n.3 of Regulation S-X; *see also* discussion *supra* Part II.C.2.a.

683 *See* proposed rule 6-10(a) of Regulation S-X; *see also* discussion *supra* Part II.C.5.

schedules for investments in securities of unaffiliated investors and securities sold short), would benefit investors through increased visibility of fund investments in derivatives. Likewise, we are proposing to eliminate the financial statement disclosure of "Total investments" on the balance sheet under "Assets".[684] As we discuss in more detail in Part II.C.5, recognizing that investments in derivatives could be presented under both assets and liabilities on the balance sheet, eliminating this disclosure would benefit investors by providing a more accurate representation of the effect of these investments on a fund's balance sheet.[685]

Other parties that would be affected by the amendments to Regulation S-X include the Commission and other market participants that would use shareholder reports and registration statements to obtain fund information. Although the amendments to Regulation S-X would primarily benefit investors and particularly individual investors, the Commission and other market participants could use the information reported in a fund's shareholder report such as the proposed notes to financial statement relating to income and expenses from securities lending activities, as well as the terms governing the compensation of securities lending agents, and would benefit from an increase in transparency into a fund's investments and financial statements during examinations. Commission staff believes that a large number of funds currently adhere to industry practices from which the amendments to Regulation S-X are derived. The proposal to amend Regulation S-X, therefore, would effectively standardize the information that all funds disclose in financial statements, and make the schedule of investments and

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[684] *See* proposed rule 6-04 of Regulation S-X; *see also* discussion *supra* Part II.C.5.

[685] *See id*.

financial statement disclosures consistent and thus more comparable across funds. Similar to the introduction of Form N-PORT, the amendments to Regulation S-X, to the extent that it increases the transparency of shareholder reports, could improve the ability of investors, particularly individual investors, to differentiate investment companies and make investment decisions. An increase in the ability of investors to differentiate investment companies and allocate capital across reporting funds closer to their risk preferences would increase the competition among funds for investor capital. In addition, by improving the ability of investors to understand investment risks and hence their ability to allocate capital across funds and other investments more efficiently, the introduction of Form N-PORT could also promote capital formation.

c. Costs

We believe that registrants on average will likely incur minimal costs from our proposed amendments to Regulation S-X because, as discussed above, based upon staff experience, we believe that a majority of funds are already providing the information that would be required by the proposed amendments to Regulation S-X in their financial statements.[686] The costs to a fund of complying with the proposed rules would depend upon the extent to which funds are already making such disclosures voluntarily. As discussed above, the Commission is proposing to require parallel disclosures in Form N-PORT, and funds would incur one set of costs, both one-time and ongoing, to obtain the information that would be disclosed in Form N-PORT and in shareholder reports and registration statements. In addition, other costs that relate to the disclosure of portfolio

[686] In order to reduce burdens on funds, we also endeavored, where appropriate, to require consistent derivatives holdings disclosures between Form N-PORT and Regulation S-X.

investment information, including the ability of other investors to front-run or copycat the investment strategies of funds, would primarily relate to Form N-PORT because of the additional ability of other interested third-parties and market participants to efficiently obtain, aggregate, and analyze the information as a result of its structured format as compared to the non-structured format of reported portfolio investment information in shareholder reports.

For example, similar to our disclosures proposed in Form N-PORT,[687] proposed rules 12-13 and 12-13C of Regulation S-X would, under certain circumstances, require funds to list separately each of the investments comprising referenced assets underlying swap[688] and option contracts,[689] such as when the referenced asset is an index whose components are not periodically publicly available on a website. We understand that many indexes are the proprietary property of an index provider, and may be subject to licensing agreements between the index provider and the fund. Disclosing the underlying components of an index could subject the fund to costs associated with negotiating or renegotiating licensing agreements in order to publicly disclose the components of the index. The Commission does not have information available to provide a reliable estimate of the increased costs of licensing agreements because funds currently are not required to disclose the agreements or the components of the index. In addition, disclosing the components of a non-public index may include costs to both the index provider, whose proprietary indexing strategy could be reverse engineered, and the fund,

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687 *See* Item C.11.c.iii and Item C.11.f.i of proposed Form N-PORT.

688 *See* proposed rule 12-13C, n.3 of Regulation S-X; *see also* discussion *supra* Part II.C.2.d.

689 *See* proposed rule 12-13, n.3 of Regulation S-X.; *see also* discussion *supra* Part II.C.2.a.

whose rebalancing trades could be front-run.[690] However, the underlying components may be more accessible in Form N-PORT as a result of its structured format as compared to the non-structured format of the information in shareholder reports, and the costs of disclosing the information would therefore primarily relate to Form N-PORT.

As another example, the proposal includes an instruction to disclose the variable financing rates for swaps which pay or receive financing payments.[691] It is our understanding that variable financing rates for swap contracts are often commercial terms of a deal that are negotiated between the fund and the counterparty to the swap. Disclosure of favorable variable financing rates could result in costs to the fund in the form of less favorable variable financing rates for future transactions, but may also improve the ability of other funds to negotiate more favorable terms. Similar to the introduction of Form N-PORT, the increased transparency could increase the competition among swap and security-based swap dealers to offer favorable fees and financing terms. As with the disclosure of the components of an index, we believe that the majority of the costs associated with disclosures of variable financing rates, including the increase in competition for favorable fees and terms, would instead derive from the similar requirements in proposed Form N-PORT.[692]

Funds would incur one-time and ongoing costs to comply with the amendments to Regulation S-X in addition to the costs attributable to new Form N-PORT. For the amendments to Regulation S-X, funds would incur one-time and ongoing costs to obtain

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[690] *See supra* note 672 and accompanying and following text.

[691] *See* proposed rule 12-13C, n.3 of Regulation S-X.

[692] *See* Item C.11.f.i of proposed Form N-PORT; *see also* discussion *supra* Part II.A.2.g.iv.

the additional information that would be disclosed on shareholder reports and registration statements, and that would also not be disclosed on Form N-PORT; and funds would also incur one-time costs to format for presentation all additional information that would be disclosed on shareholder reports and registration statements. In addition, our proposal would require funds, to the extent they do not already do so, to present the schedules associated with rules 12-13 through 12-13D and 12-14 in the financial statements, as opposed to in the notes to the financial statements.[693] Funds that do not currently present their schedule of investments in this manner would incur a one-time cost of modifying the presentation of their financial statements to conform to our proposal.

To the extent possible, we have attempted to quantify these costs. As discussed below, we estimate that management investment companies would incur certain one-time additional paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with our proposed amendments to Regulation S-X in the amount of approximately $2,417 per fund[694] and $27,142,910 in the aggregate.[695] We similarly estimate that management investment companies would incur certain ongoing paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with our proposed amendments to Regulation S-X in the amount of

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693 *See* proposed rule 6-10 of Regulation S-X; *see also* discussion *supra* Part II.C.5.

694 *See infra* note 778 and accompanying text. The estimate is based upon the following calculations: ($2,417 = ($707 = 4.5 hours x $157/hour for an Intermediate Accountant) + ($1,710 = 4.5 hours x $380/hour for an Attorney)). The hourly wage figures in this and subsequent footnotes are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

695 *See infra* note 777 and accompanying text. These estimates are based upon the following calculations: $27,142,910 = (11,230 funds x $2,417 per fund).

approximately $806 per fund[696] and $9,051,380 in the aggregate.[697] Likewise, we estimate that UITs would incur certain one-time additional paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with our proposed amendments to Regulation S-X in the amount of approximately $2,417 per fund[698] and $1,757,159 in the aggregate.[699] We similarly estimate that UITs would incur certain ongoing paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with our proposed amendments to Regulation S-X in the amount of approximately $806 per fund[700] and $585,962 in the aggregate.[701]

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696 *See infra* note 779 and accompanying text. The estimate is based upon the following calculations: ($806 = ($236 = 1.5 hours x $157/hour for an Intermediate Accountant) + ($570 = 1.5 hours x $380/hour for an Attorney). The hourly wage figures in this and subsequent footnotes are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

697 *See infra* note 777 and accompanying text. These estimates are based upon the following calculations: $9,051,380 = (11,230 funds x $806 per fund).

698 *See infra* note 790 and accompanying text. The estimate is based upon the following calculations: ($2,417 = ($707 = 4.5 hours x $157/hour for an Intermediate Accountant) + ($1,710 = 4.5 hours x $380/hour for an Attorney)). The hourly wage figures in this and subsequent footnotes are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

699 *See infra* note 789 and accompanying text. These estimates are based upon the following calculations: $1,757,159 = (727 UITs x $2,417 per UIT).

700 *See infra* note 791 and accompanying text. The estimate is based upon the following calculations: ($806 = ($236 = 1.5 hours x $157/hour for an Intermediate Accountant) + ($570 = 1.5 hours x $380/hour for an Attorney). The hourly wage figures in this and subsequent footnotes are from SIFMA's Management & Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

701 *See infra* note 789 and accompanying text. These estimates are based upon the following calculations: $585,962 = (727 UITs x $806 per UIT).

D. Option for Website Transmission of Shareholder Reports

a. Introduction and Economic Baseline

As discussed above, the Commission is proposing new rule 30e-3 under the Investment Company Act, which would permit, but not require, a fund to satisfy requirements under the Act and rules thereunder to transmit reports to shareholders if the fund meets certain requirements. These requirements include making the reports and certain other materials accessible on its website and periodically notifying investors of the materials' availability.[702] Funds that do not maintain websites or that otherwise wish to transmit shareholder reports in paper or pursuant the Commission's existing electronic delivery guidance would continue to be able to satisfy the transmission requirements by those transmission methods.

The current set of requirements under which funds transmit shareholder reports to investors is the baseline from which we will discuss the economic effects of proposed rule 30e-3. The baseline also includes the current practice of many funds to make some or all of these reports—or other materials listing portfolio investment information such as reports on Form N-Q—accessible on their own websites. The baseline also reflects that some funds transmit these materials electronically today, pursuant to Commission guidance that permits such a transmission method on a shareholder-by-shareholder "opt in" basis, provided that certain other conditions are met.[703] The parties that could be affected by new rule 30e-3 are funds that currently are or would be required to transmit shareholder reports under rule 30e-1 or 30e-2, and other current and future users of fund

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[702] *See supra* Part II.D.

[703] *See supra* note 289 and accompanying text.

portfolio investment information, including investors and third-party information providers.

Today, most funds are required to disclose their portfolio holdings on a quarterly basis, with holdings as of the end of the second and fourth fiscal quarters disclosed in the fund's semiannual and annual reports, respectively, and holdings as of the end of the first and third fiscal quarters disclosed in reports on Form N-Q. Funds are generally required to transmit reports to shareholders on a semiannual basis, and these reports have historically been paper copies mailed to shareholders.[704] As of December 31, 2014, about 11,957 funds could rely on proposed rule 30e-3 if it were in effect.[705] As discussed in detail below, we estimate that these funds—and their shareholders—bear aggregate annual paperwork expenses of about $616 million in connection with the required preparation and transmission of shareholder reports (or about $51,539 for each portfolio).[706] Of those estimated expenses, we estimate that about $116 million are

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[704] *See supra* note 288 and accompanying text.

[705] *See infra* note 799 and accompanying text.

[706] As discussed below, we previously estimated 994,960 aggregate annual internal burden hours associated with rules 30e-1 and 30e-2. *See infra* notes 853 and 855 (estimating 903,000 hours for rule 30e-1 and 91,960 hours for rule 30e-2). The Commission estimates the wage rate associated with these burden hours based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figure is based on published rates for attorneys and intermediate accountants, modified to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead, yielding an effective hourly rate of $268.50. This estimate is based upon the following calculation: ($380 per hour for Attorneys × 0.5) + ($157 per hour for Intermediate Accountants × 0.5) = $268.50. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. Based on the Commission's estimate of 994,960 burden hours per year and the estimated wage rate of about $268.50 per hour, the total annual paperwork expenses for funds associated with the internal hour burden of rules 30e-1 and 30e-2 are approximately $267,146,760. This estimate is based upon the following calculation: 994,960 hours × $268.50 per hour = $267,146,760. We have also estimated aggregate annual external cost burden of $349,105,750 associated with rules 30e-1 and 30e-2. *See infra* notes 854 and 856

associated with the printing and mailing of shareholder reports.[707] Reports on Form N-Q are available on EDGAR.[708] Some funds choose to make some or all of these reports—or other materials listing portfolio holdings at particular times—accessible on their own websites, but funds do not do so uniformly.

As technology has developed, so has the need to modernize the manner in which shareholder reports and portfolio investment information are delivered to investors. As discussed above, recent investor testing and Internet usage trends have highlighted that investor preferences about electronic delivery of information have evolved, and that many investors would prefer enhanced availability of fund information on the Internet.[709] In addition, investor testing has suggested that fund investors are much more likely to seek out fund information on the fund's own website than they are to seek it out on EDGAR.[710] Moreover, searching for and retrieving individual reports on Form N-Q on EDGAR may, in many cases, be more difficult than navigating a website with which the investor is likely to be already familiar. We therefore believe that many investors may

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(estimating $333,905,750 for rule 30e-1 and $15,200,000 for rule 30e-2). Therefore, we estimate that the total estimated aggregate annual paperwork expenses associated with rules 30e-1 and 30e-2 are $616,252,510. This estimate is based upon the following calculation: $267,146,760 expenses associated with internal burden hours + $349,105,750 external cost burden = $616,252,510. Using this estimate and our prior estimate of 11,957 funds, we estimate that annual paperwork expenses associated with rules 30e-1 and 30e-2 are about $51,539 on a per-portfolio basis. This estimate is based upon the following calculation: $616,252,510 aggregate annual paperwork expenses ÷ 11,957 funds = $51,539.

[707] We estimate that one-third of the external costs attributed to rules 30e-1 and 30e-2 relate to printing and mailing expenses. *See infra* notes 857–858. Therefore, we estimate aggregate annual printing and mailings costs associated with those rules of about $116,368,583. This estimate is based upon the following calculation: $349,105,750 aggregate external cost burden ÷ 3 = $116,368,583.33.

[708] *See supra* notes 637–642 and accompanying text.

[709] *See supra* note 292 and accompanying text.

[710] *See supra* note 292 and accompanying text.

not view the information that is available in reports on Form N-Q. Shareholders also pay, *pro rata*, the expenses associated with printing and mailing reports by default to shareholders, who may nonetheless prefer electronic transmission.

The economic effects of proposed rule 30e-3 are dependent on a number of factors, including the number of funds that would rely on the rule, the number of funds which currently rely on Commission guidance to transmit shareholder reports electronically, and the extent to which shareholders become more aware of the availability of portfolio investment information, view the information, and use the information to make investment decisions. Due to the optionality of the rule, we would expect that, in general, each fund would only rely on the rule if the benefits to that fund exceeded the costs. We have provided estimates of the costs associated with printing and mailing shareholder reports. However, information that would allow the Commission to quantify the other economic effects of the rule, such as how the availability of shareholder reports online will affect investors' use of the information, is not known to us.

Funds can transmit shareholder reports electronically today pursuant to Commission guidance. However, funds wishing to rely on this Commission guidance must satisfy certain conditions, including that shareholders agree to electronic transmission on a shareholder-by-shareholder "opt in" basis. We recognize that express shareholder consent can be difficult to obtain even for practices that many shareholders

may prefer.[711] The number of funds that transmit shareholder reports electronically today is unclear to us, because funds are not required to report their reliance on the Commission's electronic delivery guidance or the number of investors that have given opt-in consent to receive electronic delivery. Commission staff is also not aware of information that describes the prevalence of electronic delivery of disclosure documents and other information. In addition, although survey evidence describes certain investor preferences regarding electronic delivery of shareholder report information,[712] we are not aware of information that would describe the effect of this rule on investor ability to choose between funds and allocate capital across all investments. For these reasons, much of the discussion below is qualitative in nature.

b. Benefits

The proposed rule, to the extent that it is relied upon by funds and alters the current transmission of reports, would increase the accessibility of portfolio investment information including information from the first and third fiscal quarters that might otherwise be only available on EDGAR. The proposed rule would thereby increase the awareness of fund shareholders of the availability of portfolio investment information, and therefore also increase the likelihood that fund investors review portfolio investment information. The proposed rule would also increase the likelihood that fund shareholders view the portfolio investment information in their preferred format, and thereby increase

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[711] *See* Investment Company Act Release No. 22884 (Nov. 13, 1997) [62 FR 61933, 61935 (Nov. 20, 1997)] (concerning implied consent to delivery of disclosure documents to households).

[712] *See supra* note 292 and accompanying text.

their use of the information to make investment decisions.[713] Similar to the introduction of Form N-PORT and the amendments to Regulation S-X, greater investor use of shareholder reports could result in more informed investment decisions, particularly for individual investors, and an increase in competition among funds for investor capital. A greater understanding of the investment strategy of the fund, its portfolio composition, and its investment risks could also result in a more efficient allocation of capital across funds and other investments, and could thereby promote capital formation.

Funds and their shareholders would also benefit from a reduction in expenses related to the physical distribution of shareholder reports. Although the proposed rule would not have much of an effect, if any, on the expenses associated with the preparation of reports, we expect that the expenses associated with printing and mailing of shareholder reports would be substantially reduced if the rule is adopted. As discussed in detail below, of the estimated $116 million in annual paperwork expenses associated with the printing and mailing of shareholder reports,[714] we estimate that about $105 million would be eliminated if the proposed rule were adopted.[715] The actual reduction in paperwork expenses would depend, in part, upon reliance on the proposed rule by funds

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[713] *See supra* notes 291–296 and accompanying text (concerning investor Internet usage statistics and transmission method preferences).

[714] *See supra* notes 706–707 and accompanying text.

[715] We estimate that about 90% of the $116,368,583 in paperwork expenses associated with printing and mailing shareholder reports pursuant to rules 30e-1 and 30e-2 would be eliminated if rule 30e-3 were adopted. *See supra* note 707; *infra* notes 857–858. Therefore, we estimate that about $104,731,725 of annual paperwork expenses associated with rules 30e-1 and 30e-2 would be eliminated if rule 30e-3 were adopted. This estimate is based upon the following calculation: $116,368,583 in aggregate annual printing and mailing expenses × 0.90 proportion eliminated = $104,731,724.70 eliminated annual printing and mailing expenses.

and the extent of shareholder consent to electronic transmission of reports, each of which is uncertain.

The expected benefits would not necessarily be distributed uniformly across funds and across a fund's shareholders. Some funds already transmit materials electronically to some or all of their shareholders, and these funds would experience fewer benefits from electing to rely on the proposed rule. Some funds, such as funds that do not currently maintain websites, may choose not to rely on the proposed rule.

c. Costs

Although we believe that permitting electronic delivery "by default" would improve overall alignment of transmission method with investor preferences,[716] there may be some investors who would prefer to receive print copies that do not notify their fund of that preference and may be others that would benefit from print copies even though they prefer electronic transmission. These investors, depending on their ability and preference to access shareholder reports and portfolio investment information electronically, could overlook electronic deliveries or otherwise experience a reduction in

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[716] *See supra* note 292. We believe that the change from requiring shareholders to "opt-in" if they wish to receive electronic instead of print copies of shareholder reports, to—as under the proposed rule—"opt-out" if they wish to receive print copies instead of electronic copies would increase the ability of funds to transmit shareholder reports electronically. Although the preferences of shareholders would not change dependent on the form of consent, behavioral economic theory and empirical evidence suggest the likelihood that shareholders receive electronic transmissions of fund reports would be greater under opt-out consent rather than opt-in consent. *See, e.g.*, Richard H. Thaler and Shlomo Bernatzi, *Save More Tomorrow™: Using Behavioral Economics to Increase Employee Saving*, Journal of Political Economy, Vol. 112:1, S164-S187 (2004); Richard H. Thaler and Cass R. Sunstein, *Libertarian Paternalism*, The American Economic Review, Vol. 93:2, 175- 179 (2003). Thaler and Sunstein argue that a "status quo" bias results in the continuance of existing arrangements even if better options are available. The authors illustrate their argument with higher rates of initial enrollments in employee savings plans when enrollment is automatic as compared to when employees must first complete an enrollment form.

their ability to access portfolio investment information, and could result in a decrease in their ability to efficiently allocate capital across funds and other investments. We have endeavored, through the consent and notice provisions of the proposed rule, to mitigate the potential costs associated with this possibility by requiring a fund wishing to rely on the proposed rule to alert an investor before beginning to transmit reports electronically and to notify the investor around the time each report is made accessible on the website. Although, as discussed above, an increase in investor use of shareholder reports could increase competition among funds for investor capital, funds that do not rely on the rule could be placed at a competitive disadvantage depending on whether investors choose funds based on their preference for website transmission.

As discussed above, reliance on proposed rule 30e-3 would be optional, and funds that rely on the rule would incur costs to adhere to the rule. Relying funds would incur paperwork expenses associated with satisfying the conditions of the proposed rule, such as making the materials publicly accessible; preparing, reviewing, and transmitting a notice to shareholders; soliciting the consent of each shareholder by sending them an initial statement; and printing and mailing shareholder reports and other materials upon request. As discussed in detail below, we estimate that these paperwork expenses would be, in the aggregate, about $32 million each year.[717] Relying funds would also incur

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[717] Below, we estimate that 10,761 funds would choose to rely on proposed rule 30e-3. *See infra* note 799 and accompanying text. Below, we estimate that funds that elect to rely on rule 30e-3 will, on average, incur 0.76 burden hours per fund per year to comply with the website accessibility conditions of rule 30e-3. *See infra* note 808 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 8,178 burden hours to comply with these requirements. This estimate is based upon the following calculation: 0.76 burden hours per fund × 10,761 funds expected to rely on rule 30e-3 = 8,178.36 hours. The Commission estimates the wage rate associated with these burden hours based on salary information for the securities industry compiled by the Securities Industry and Financial

Markets Association. The estimated wage figure is based on published rates for senior programmers, modified to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead, yielding an effective hourly rate of $303. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. Based on the Commission's estimate of 8,178 burden hours per year and the estimated wage rate of about $303 per hour, the total annual paperwork expenses for funds associated with the internal hour burden imposed by the website accessibility conditions of rule 30e-3 are approximately $2,477,934. This estimate is based upon the following calculation: 8,178 hours × $303 per hour = $2,477,934.

Below, we also estimate that funds that elect to rely on proposed rule 30e-3 would incur average annual external costs of $500 per fund in connection with the requirement to provide a complete shareholder report upon request of a shareholder. *See infra* note 816 and accompanying text. We estimate that aggregate external costs to funds in connection with this requirement would therefore be about $5,380,500. This estimate is based upon the following calculation: $500 per fund × 10,761 funds = $5,380,500.

Below, we also estimate that funds that elect to rely on proposed rule 30e-3 would incur about 0.38 annual burden hours in connection with the initial statement conditions of the rule. *See infra* note 829 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 4,089 burden hours to comply with these requirements. This estimate is based upon the following calculation: 0.38 burden hours per fund × 10,761 funds expected to rely on rule 30e-3 = 4,089.18 hours. The Commission estimates the wage rate associated with these burden hours based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association. The estimated wage figure is based on published rates for compliance attorneys, modified to account for an 1,800-hour work-year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead, yielding an effective hourly rate of $334. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. Based on the Commission's estimate of 4,089 burden hours per year and the estimated wage rate of about $334 per hour, the total annual paperwork expenses for funds associated with the internal hour burden imposed by the initial statement conditions of rule 30e-3 are approximately $1,365,726. This estimate is based upon the following calculation: 4,089 hours × $334 per hour = $1,365,726. Below, we also estimate that these funds will incur annual cost burden of about $216 per fund to comply with the initial statement conditions. This estimate is based upon the following calculation: $49 per fund per year for services of outside counsel + $333 per year per fund to print and mail initial statements = $382 per fund per year. *See infra* notes 837 and 844. Such funds would therefore incur about $4,110,702 in aggregate annual cost burden to comply with the initial statement conditions. This estimate is based upon the following calculation: $382 per fund per year × 10,761 funds = $4,110,702 per year. Thus the total estimated annual paperwork expenses associated with the initial statement conditions are $5,476,428. This estimate is based upon the following calculation: $1,365,726 associated with internal burden + $4,110,702 external cost burden = $5,476,428.

Below, we also estimate that funds that elect to rely on proposed rule 30e-3 would incur about 1.5 annual burden hours in connection with the notice conditions of the rule. *See infra* note 832 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 16,142 burden hours to comply with these requirements. This estimate is

initial one-time costs associated with establishing systems and procedures for compliance. We estimate that these expenses would be, in the aggregate, about $16 million.[718]

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based upon the following calculation: 1.5 burden hours per fund × 10,761 funds expected to rely on rule 30e-3 = 16,141.5 hours. Based on the Commission's estimate of 16,142 burden hours per year and the estimated wage rate of about $334 per hour, the total annual paperwork related expenses for funds associated with the internal hour burden imposed by the website accessibility conditions of rule 30e-3 are approximately $5,391,428. This estimate is based upon the following calculation: 16,142 hours × $334 per hour = $5,391,428. Below, we also estimate that these funds will incur annual cost burden of about $1,190 per fund to comply with the notice conditions. This estimate is based upon the following calculation: $190 per fund per year for services of outside counsel + $1,000 per fund per year to print and mail notices = $1,190 per fund per year. *See infra* notes 840 and 845 and accompanying text. Such funds would therefore incur about $12,805,590 in aggregate annual cost burden to comply with the notice conditions. This estimate is based upon the following calculation: $1,190 per fund per year × 10,761 funds = $12,805,590 per year. Thus the total estimated annual paperwork expenses associated with the notice conditions are $12,816,518. This estimate is based upon the following calculation: $5,391,428 associated with internal burden + $12,805,590 external cost burden = $18,197,018.

Thus, we estimate that the total annual paperwork expenses associated with satisfying the conditions of proposed rule 30e-3 would be $31,531,880. This estimate is based upon the following calculation: $2,477,934 associated with website accessibility conditions + $5,380,500 associated with provision of print report upon request condition + $5,476,428 associated with initial statement condition + $18,197,018 associated with notice condition = $31,531,880.

[718] Below, we estimate that funds that elect to rely on rule 30e-3 will, on average, incur an additional 0.08 one-time burden hours per fund in the first year to comply with website accessibility conditions. *See infra* notes 807–808 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 861 one-time burden hours to comply with these requirements. This estimate is based upon the following calculation: 0.08 hours per fund × 10,761 funds = 860.88 hours. Based on the Commission's estimate of 861 one-time burden hours and the estimated wage rate of about $303 per hour for senior programmers, the total annual paperwork expenses for funds associated with the internal hour burden imposed by the website accessibility conditions of rule 30e-3 are approximately $260,883. This estimate is based upon the following calculation: 861 hours × $303 per hour = $260,883. Below, we also estimate that about 113 funds that wish to rely on proposed rule 30e-3 but that do not currently have a website will incur one-time cost burden of $2,000 per fund to comply with the website accessibility conditions. *See infra* notes 804 and 811 and accompanying text. Such funds would therefore incur about $226,000 in aggregate one-time cost burden to comply with the website accessibility conditions. $2,000 per fund × 113 funds = $226,000. Thus the total estimated one-time paperwork expenses associated with the website accessibility conditions are $486,883. This estimate is based upon the following calculation: $260,883 associated with internal burden + $226,000 external cost burden = $486,883.

We have endeavored to mitigate the costs associated with compliance with the rule's conditions by, for example, requiring that the required schedule of portfolio investment information as of the end of the first and third fiscal quarters be presented

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Below, we also estimate that funds that elect to rely on rule 30e-3 will, on average, incur an additional 0.92 one-time burden hours per fund in the first year to comply with the initial statement conditions. *See infra* notes 828–829 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 9,900 one-time burden hours to comply with these requirements. This estimate is based upon the following calculation: 0.92 hours per fund × 10,761 funds = 9,900.12 hours. Based on the Commission's estimate of 9,900 one-time burden hours and the estimated wage rate of about $334 per hour, the total annual administrative expenses for funds associated with the internal hour burden imposed by the initial statement conditions of proposed rule 30e-3 are approximately $3,306,600. This estimate is based upon the following calculation: 9,900 hours × $334 per hour = $3,306,600. Below, we also estimate that these funds will incur one-time cost burden of $762 per fund to comply with the initial statement conditions. This estimate is based upon the following calculation: $95 per fund for the services of outside counsel + $667 per fund to print and mail initial statements = $762 per fund. *See* notes 836–843 and accompanying text. Such funds would therefore incur about $8,199,882 in aggregate one-time cost burden to comply with the initial statement conditions. This estimate is based upon the following calculation: $762 per fund × 10,761 funds = $8,199,882. Thus the total estimated one-time paperwork expenses associated with the initial statement conditions are $11,506,482. $3,306,600 associated with internal burden + $8,199,882 external cost burden = $11,506,482.

Below, we also estimate that funds that elect to rely on rule 30e-3 will, on average, incur an additional 0.8 one-time burden hours per fund in the first year to comply with the notice conditions. *See infra* notes 831–832 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 8,609 one-time burden hours to comply with these requirements. This estimate is based upon the following calculation: 0.8 hours per fund × 10,761 funds = 8,608.8 hours. Based on the Commission's estimate of 8,609 one-time burden hours and the estimated wage rate of about $334 per hour, the total annual paperwork expenses for funds associated with the internal hour burden imposed by the notice conditions of proposed rule 30e-3 are approximately $2,875,406. This estimate is based upon the following calculation: 8,609 hours × $334 per hour = $2,875,406. Below, we also estimate that these funds will incur one-time cost burden of $95 per fund to comply with the notice conditions. *See infra* notes 839–840 and accompanying text. Such funds would therefore incur about $1,022,295 in aggregate one-time cost burden to comply with the initial statement conditions. This estimate is based upon the following calculation: $95 per fund × 10,761 funds = $1,022,295. Thus the total estimated one-time paperwork expenses associated with the notice conditions are $3,897,701. This estimate is based upon the following calculation: $2,875,406 associated with internal burden + $1,022,295 external cost burden = $3,897,701.

Thus, we estimate that the total one-time paperwork expenses associated with satisfying the conditions of proposed rule 30e-3 would be $15,891,066. This estimate is based upon the following calculation: $486,883 associated with website accessibility conditions + $11,506,482 associated with initial statement condition + $3,897,701 associated with notice condition = $15,891,066.

consistent with the reporting requirements of Regulation S-X. Most funds would have established procedures in place to prepare and review such disclosures and would be familiar with the disclosure requirements. Because reliance on the proposed rule would be optional, a particular fund would not be expected to rely on the proposed rule if the costs of the rule to that fund would exceed its benefits. Funds that do not rely on the proposed rule would therefore not incur compliance costs.

E. Form N-CEN and Rescission of Form N-SAR

a. Introduction and Economic Baseline

Form N-CEN, as proposed, would require funds to report census information to the Commission on an annual basis. Although Form N-CEN would include many of the same data elements as the current census-type reporting form, Form N-SAR, it would replace items that are outdated or no longer informative with items of greater importance. Form N-CEN would also eliminate certain items that are reported to the Commission in other forms. Reports would also be filed in a structured, XML format to allow for easier aggregation and manipulation of the data. Form N-SAR would be rescinded.

The current set of requirements—management companies must file reports on Form N-SAR semi-annually,[719] and UITs file such reports annually[720]—is the baseline from which we discuss the economic effects of Form N-CEN. The parties that could be affected by the rescission of Form N-SAR and the introduction of Form N-CEN include funds that currently file reports on Form N-SAR and funds that would file reports on Form N-CEN; the Commission; and, other current and future users of fund census

[719] *See* rule 30b1-1.

[720] *See* rule 30a-1.

information including investors, third-party information providers, and other interested potential users.

At the time it was adopted, Form N-SAR was intended to reduce reporting burdens and better align the information reported with the characteristics of the fund industry. As the fund industry has developed, including the development of new products, so has the need to update the information the Commission requires in order to improve its ability to monitor the compliance and risks of reporting funds. The format in which information is reported in Form N-SAR is also outdated, which reduces the ability of Commission staff to obtain and aggregate the information. The technology in which Form N-CEN would be filed allows for both the sender and recipient to validate the information against identical definitions, thereby increasing the accuracy of the information and therefore the ability of Commission staff to compare the information across funds.

The economic effects from the introduction of new Form N-CEN and the rescission of Form N-SAR would largely result from an update to the format of the information reported, as well as the update to the census information that investment companies would report. The economic effects would therefore depend on the extent to which investment companies become more transparent, and the ability of Commission staff and investors to utilize the updated disclosures. Form N-CEN would require census information about the fund industry reported in a structured format. However, while Form N-SAR is also reported in a structured format, Form N-CEN would modernize the information funds report and the required format of the filings. Therefore, although the introduction of Form N-CEN would increase the transparency of the fund industry, we do

not know the extent to which the transparency would increase or the significance of its economic implications.

b. Benefits

As discussed above, the Commission is proposing to rescind Form N-SAR and replace it with new Form N-CEN in order to improve the quality and utility of the information reported to the Commission. The improvement in the quality and utility of the information would allow Commission staff to better understand industry trends, inform policy, and assist with the Commission's examination program.

Similar to Form N-PORT, the ability of the Commission to most effectively use the information is dependent on the ability of staff to compile and aggregate the information into a single database. The structuring of the information in an XML format would improve the ability and efficiency of Commission staff to obtain and analyze the information. An improved structured format could also promote additional efficiency to the extent that the new reporting requirements encourage modernization of internal systems and standardization for the disclosure and transmission of information. An XML format would also improve its accuracy by providing sophisticated constraints as to how information could be provided and by allowing for built-in validation.

Form N-CEN would also modernize the census information that funds provide and increase its utility to Commission staff, investors, and other interested parties by reflecting the changes to the fund industry. The Commission would use the information in Form N-CEN to improve its understanding of fund industry trends and practices, and assist with the Commission's examination program. Commission staff has identified specific information that could improve its ability to effectively oversee funds including identifying information, when applicable, about the fund's service providers, information

describing financial support by an affiliated entity, classification of fund type, and information describing investments in CFCs.

Along with the additional information, Form N-CEN would add new requirements for information specifically relating to the ETF primary markets, including more detailed information on authorized participants and creation unit requirements.[721] We believe that our proposed additional information on ETFs allows the Commission to better understand and assess the ETF market and also inform the public about certain characteristics of the ETF primary markets. Additionally, Form N-CEN, like Form N-SAR, has particular sections for closed-end funds, SIBCs, and UITs in order to obtain information about the particular characteristics of these entities to assist us in monitoring the activities of these funds and our examiners in their preparation for exams of these funds.

Form N-CEN would also add new requirements for information relating to a management company's securities lending activities, including information concerning the management company's securities lending agents and cash collateral managers.[722] Together with the requirements on securities lending activities in proposed Form N-PORT, this information would benefit the Commission's oversight abilities and, potentially, future policymaking concerning securities lending. Moreover, we believe that this information could inform investors and other interested parties about the use of and potential risks associated with a management company's securities lending activities.

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[721] *See* discussion *supra* Part II.E.4.e.

[722] *See* Item 30 of proposed Form N-CEN.; *see also* discussion *supra* Part II.E.4.c.iii.

We expect funds to also benefit from replacing Form N-SAR with Form N-CEN through reduced expenses. First, we estimate that N-CEN has a lower cost per filing than Form N-SAR, as a result of filing in an XML format, as opposed to the outdated format of Form N-SAR, and the elimination of certain information items on Form N-SAR that funds would not be required to report on Form N-CEN. Second, funds that are management investment companies would experience reduced paperwork related costs from decreasing the reporting frequency of census information from semi-annual to annual. We estimate that filers would have an aggregate annual paperwork related expenses of $12,395,064 for reports on Form N-CEN.[723] By contrast, we estimate that the ongoing paperwork related expenses of filing Form N-SAR is $25,299,092 annually.[724] Accordingly, we estimate the annual paperwork related cost savings to funds associated with the adoption of Form N-CEN, compared to Form N-SAR, would be $12,904,028. We recognize that these ongoing annual cost savings would be offset by a one-time cost in the first year to file reports on N-CEN, estimated at $20,040,020.[725]

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[723] This estimate is based on annual ongoing burden hour estimate of 32,294 burden hours for management companies (2,419 management companies x 13.35 hours per filing) plus 6,623 burden hours for UITs (727 UITs x 9.11 burden hours per filing), for a total estimate of 38,917 burden ongoing hours. This was then multiplied by a blended hourly wage of $318.50 per hour, $303 per hour for Senior Programmers and $334 per hour for compliance attorneys, as we believe these employees would commonly be responsible for completing reports on proposed Form N-CEN ($318.50 x 38,917 = $12,395,064.50). *See infra* Part V.B.1.

[724] This estimate is based on an assumption of annual ongoing burden hour estimate to file Form N-SAR of 74,263 burden hours for management investment companies (2,419 management companies x 15.35 hours per filing x 2 filings per year) and 5,169 burden hours for UITs (727 UITs x 7.11 burden hours per filing) for a total estimate of 79,432 ongoing burden hours. This was then multiplied by a blended hourly wage of $318.50 per hour ($318.50 x 79,432 = 25,299,092). *See infra* Part V.B.2.

[725] This estimate is based on an estimate of 20 initial burden hours per filer, multiplied by a blended hourly wage of $318.50 (20 hours x 3,146 filers x $318.50 = $20,040,020)

The rescission of Form N-SAR and the introduction of Form N-CEN, to the extent relevant, could provide similar benefits to investors, to third-party information providers, and to other potential users from an update to the census information that investment companies report and from an update to its structured format. Similar to Form N-PORT, we expect that institutional investors and other market participants could use the information from Form N-CEN more so than individual investors, and that the format of the data may make the information difficult for individual investors to understand. However, individual investors may indirectly benefit from the increase in information to the extent that it becomes available through third-party information providers. For the investors and other potential users that would obtain and use the information reported in Form N-CEN, the update to the structure of the information would improve their ability to efficiently aggregate the information collected on Form N-CEN across all investment companies.

The changes to the reporting of census information, including the reporting of the information in a modern structured format, could improve the ability of investors to differentiate investment companies and could therefore lead to an increase in competition among funds for investor capital. These changes would not significantly relate to the ability of investors to understand the investment risks of investment companies, and therefore would not significantly improve the ability of investors to efficiently allocate capital. Consequently, the reporting changes would not significantly promote capital formation.

c. Costs

As discussed above, we expect the adoption of N-CEN and rescission of Form N-SAR would result in reduced costs to funds in the form of lower expenses related to filing

Form N-CEN relative to Form N-SAR. ETFs and closed-end funds, however, may have higher expenses in filing reports on Form N-CEN relative to other investment companies, as they will generally be required to provide more information. There could, however, be costs as a result of the change in the disclosure of census information. For example, the Commission would receive census information on an annual instead of semi-annual basis, and therefore the information would be more dated than if the information was reported to the Commission on a semi-annual basis.[726] As discussed above, we believe that the costs related to reducing the frequency of the information received on Form N-SAR is not significant as this information is unlikely to change frequently. Also, some of the information from Form N-SAR would not be included in Form N-CEN.[727] However, we have attempted to mitigate the potential cost relating to the loss of information by eliminating only that information which is either available elsewhere, not frequently used by Commission staff, or provides little benefit.

Form N-CEN could impose costs on investors and other potential users of the information to obtain the information from a new or additional source, including the information that would not be included on Form N-CEN but would be available through other filings. The information that would not be included on Form N-CEN and that

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[726] However, as discussed *supra* note 378, this cost is mitigated, in part, by the fact that certain items that the Commission staff has deemed necessary on a more frequent basis would be included instead in reports on proposed Form N-PORT. In addition, the static nature of the information that would be reported on Form N-CEN increases the likelihood that the information remains current.

[727] *See* discussion *supra* Part II.E.5.

would not be available elsewhere would impose costs on investors and other potential users from a loss of information to the extent that the information is found to be useful.[728]

F. Alternatives to the Reporting Requirements

The Commission has explored ways to modernize and improve the utility and the quality of the information that funds provide to the Commission and to investors. Commission staff examined how information reported to the Commission could be improved to assist the Commission in its rulemaking, inspection, examination, policymaking, and risk-monitoring functions, and how technology could be used to facilitate those ends. Commission staff also examined enhancements that would benefit investors and other potential users of this information, including updating the reporting obligations of funds to keep pace with the changes in the fund industry.

In formulating our proposal, we have considered many alternatives to the individual elements contained in our proposal, and those alternatives are outlined above in the sections discussing each of the five parts of our proposal, and we have requested comment on these alternatives.[729] The following discussion addresses significant alternatives to our proposal, which involve broader issues than the more granular

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[728] Some of the information that would no longer be requested, such as loads paid to captive or unaffiliated brokers, has been found by interested third-parties, including researchers, to be important in their analysis of the fund industry. *See, e.g.*, Susan E. K. Christoffersen, Richard Evans, and David K. Musto, *What do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives*, The Journal of Finance, Vol. 68(1), 201-235 (2013). We are proposing to eliminate certain items from Form N-SAR that are either infrequently used by the Commission, provide minimal benefits, or costly for funds to provide. We request comment on the items required by Form N-SAR that would be eliminated by Form N-CEN. *See* discussion *supra* Part II.E.5.

[729] *See generally supra* Parts II and II.G.5.

alternatives to the individual elements contained in each part of our proposal, as discussed above.

We considered the frequency at which Commission staff believed it to be important to receive information from investment companies. A possible alternative to the monthly reporting of portfolio investment information in Form N-PORT is a quarterly reporting of the information, with the quarterly reports containing information for each month in the quarter. The quarterly reporting of portfolio investment information could decrease the ongoing burden of the proposal on investment companies. We do not believe, however, that the quarterly reporting of portfolio investment information would be as useful for Commission staff to oversee investment companies on an ongoing basis given the increase in alternative strategies and the use of derivatives, as this information, even if broken out into monthly data, would result in the Commission receiving the information with a longer time lag. For example, a longer time lag for the Commission to receive portfolio investment information could reduce its effectiveness to analyze the effect of a market or other event on the fund industry.

Likewise, a possible alternative to the annual reporting of census information in Form N-CEN is a semiannual reporting of the information similar to Form N-SAR. However, as we discussed above, the census-type nature of the information that we would collect from funds in Form N-CEN should not change frequently. Requiring management companies to report census information semi-annually would therefore place a burden on funds without a commensurate increase in the value of the information received by the Commission.

We also considered alternatives to extend or shorten the filing period of Form N-PORT from thirty days and Form N-CEN from sixty days. While a shorter filing period would provide more timely information to the Commission, it would also place a burden on funds that need time to collect, verify, and report the required information to the Commission. Conversely, a longer filing period would give funds more time to report the information and would decrease the potential costs to front-running or copycatting by other investors, but would decrease the utility of the information for the Commission. We therefore believe that the thirty-day filing period for Form N-PORT and the sixty-day filing period for Form N-CEN would appropriately balance the staff's need for timely information against the appropriate amount of time for funds to collect, verify, and report information to the Commission.

Other significant alternatives relate to the public dissemination of information reported on Form N-PORT. Alternatives to the proposal include making more of the portfolio and other information reported on the form either non-public or public, including making all or none of the information reported on Form N-PORT each month publicly available, and increasing or decreasing the lag from the date funds would file this information to when the information would be publicly released. Making more of the portfolio and other information reported on the form non-public or increasing the time-lag to release the information would reduce the amount of information investors have access to when making investment decisions. However, as discussed above, making more of the portfolio and other information reported on the form public or decreasing the time-lag could increase the risk of front-running, predatory trading, and

copycatting/reverse engineering of trading strategies by other investors.[730] We believe the current proposal strikes an appropriate balance of providing more usable information to investors and other third-parties while mitigating the risk of potential investor harm that could occur from more frequent disclosure of portfolio information.

Other alternatives relate to the information that the Commission could require when determining the specific items to include and exclude on From N-PORT and Form N-CEN. The Commission considered what information it believes to be important for the Commission's oversight activities and to the public, and the costs to investment companies to provide the information. In particular, the Commission considered the benefits and costs of the information already disclosed in Form N-CSR, Form N-Q, and Form N-SAR, and that could be required on Form N-PORT and Form N-CEN. Commission staff believes that the benefits of the information currently disclosed by investment companies that would be reported on Form N-PORT and Form N-CEN, especially in a structured format, justify the costs to investment companies to report the information in these forms.

The Commission also considered the information that would be required on Form N-PORT as compared to the information on Form N-CEN. Commission staff considered the benefits to having the information more frequently updated as well as the cost to funds to report the information. Although the costs to report information on a more frequent basis imposes additional costs on funds, Commission staff believes the information that would be reported more frequently on Form N-PORT, relative to the

[730] *See* Part IV.C.c

annual reporting on Form N-CEN, is necessary for the Commission's oversight activities and could be important to other interested third-parties.

The Commission also considered the benefits and costs of the new information that would be required on Form N-PORT and Form N-CEN. The new information that would be required includes contractual terms for debt securities and derivatives, a description of reference instruments, if any, and information describing securities lending and repurchase and reverse repurchase agreements. A reasonable alternative would be to not require some of the new information, and another reasonable alternative would be to require information in addition to what is currently proposed.

As discussed, the Commission would require information which provides staff an ability to identify investment risks and engage in further outreach as necessary, and not requiring the information would substantially reduce the ability of the Commission to oversee the fund industry. In addition, the information would be important to investors to differentiate investment companies. Although the new information that would be reported on Form N-PORT and Form N-CEN could increase the initial and ongoing reporting costs for investment companies, and increase the likelihood of front-running or copycatting by other investors, Commission staff believes that the information is important to fully describe a fund's investments.

The Commission is also proposing to require risk-sensitivity measures at the portfolio and position level on Form N-PORT. These measures would aid Commission staff to efficiently understand the risk exposures of investment companies, especially those funds that invest in debt securities and derivatives. The portfolio risk-sensitivity measures, DV01 and SDV01, and the position level risk-sensitivity measure, delta, would

improve the ability of Commission staff to efficiently approximate the risk exposures of reporting funds.

A reasonable alternative is to require additional portfolio and position level risk-sensitivity measures that would provide Commission staff a more precise approximation of the risk exposures of reporting funds for larger changes in the value of the reference instrument. For example, Form N-PORT could require at the portfolio level measures that describe the sensitivity of a reporting fund to a 50 or 100 basis point change in interest rates and credit spreads, and a measure of convexity; and Form N-PORT at the position level could require gamma.[731] These measures could improve the ability of Commission staff to monitor the fund industry when large changes in prices and rates occur. The Commission could also require other risk measures including vega. While potentially valuable, requiring these additional risk-sensitivity measures could increase the burden on funds, and the additional precision might not significantly improve the ability of Commission staff to monitor the fund industry in most market environments. Another reasonable alternative is to not require any risk-sensitivity measures, or limit the requirement to certain derivatives such as those traded over-the-counter. Although the burden to investment companies to provide the information would be less if fewer or no risk-sensitivity measures were required by the Commission, staff believes that the benefits from requiring the measures, including the ability to efficiently identify and size specific investment risks, justify the costs to investment companies to provide the measures.

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[731] Other risk-sensitivity measures that the Commission could request include portfolio-level duration measures at the position level, or additional position level risk sensitivity measures such as vega.

The Commission is proposing a tiered compliance for filing reports on Form N-PORT—funds that together with other investment companies in the same group of related investment companies with assets over $1 billion would have eighteen months to file reports, and smaller groups of related investment companies with assets less than $1 billion would have thirty months to file reports. An alternative would be to not allow for tiered compliance and require all investment companies to begin filing reports on Form N-PORT within eighteen months. We believe it is appropriate to tier the compliance period to improve the ability of smaller fund complexes to make the system and internal process changes necessary to prepare reports on Form N-PORT. Although the Commission, investors, and other interested parties would potentially not have access to structured portfolio investment information for the smaller fund complexes until thirty months after the effective date, information similar to the proposed requirements concerning disclosures of derivatives that would be required on reports on proposed Form N-PORT would be available elsewhere, such in the fund's financial statements as a result of amendments to Regulation S-X. Although another alternative would be to tier the compliance period for our proposed amendments to Regulation S-X, we believe that it is less likely that smaller fund complexes would benefit from additional time to modify systems to adhere to the amendments to Regulation S-X because the proposed amendments are largely consistent with current disclosure practices and would therefore be unnecessary. Likewise, we could propose a tiered compliance period for reports on proposed Form N-CEN. However, as discussed above, we believe that it is less likely that smaller fund complexes would need additional time to comply with the requirements to file Form N-CEN because the requirements are similar to the current requirements to

file Form N-SAR, and we expect that filers will prefer the updated, more efficient filing format of Form N-CEN. Commission staff also considered requiring funds to continue to report Form N-Q, and to amend Form N-SAR instead of replacing it with Form N-CEN. Commission staff believes, however, that the new reporting requirements for portfolio investment information, including the amendments to the certification requirements of Form N-CSR, would cause Form N-Q to become redundant if not outdated, and therefore impose costs on funds to file reports that would result in little benefit. Although requiring that certifying officers state that they have disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year would increase the burden of filing Form N-CSR, these certifications are necessary to ensure that the information reported continues to be accurate. The Commission also believes that the technology associated with Form N-SAR required the introduction of a new form in order to increase the benefits from the changes made to the reporting of census information. One effect of the amendments to Regulation S-X would be to provide investors with more transparency in a fund's investments. For example, as discussed above, we are proposing to require funds, under certain circumstances, to disclose the components of a custom index underlying swaps or option contracts. As an alternative, we could require funds to only disclose a brief description of the index or require a different threshold for identifying the components of the swap or options contract, such as a custom basket that represents a larger portion of the fund's assets under management. Although these alternatives would attenuate the information disclosed and reduce the potential costs to funds and index providers, these

alternatives would result in less transparency for investors into the assets underlying a swap or options contract and any related risks associated with these investments.

The accessibility of information about a fund's investments would also increase as a result of the new option for transmission of shareholder reports and other portfolio investment information. In general, the requirements of proposed rule 30e-3 are designed to allow funds to take advantage of the cost efficiencies from the advancements in technology and to more closely align the transmission format to investor preferences, while at the same time ensuring that shareholders would have an opportunity to view reports in their desired form and have an opportunity to view portfolio investment information in a central and more familiar location. One alternative would be to require different notice and consent procedures, and another alternative would be for funds to report different portfolio investment information on their websites. We believe that the requirements of rule 30e-3, as proposed, provide investors an ability to receive shareholder reports in their desired format and become aware of the availability of portfolio investment information, while at the same time providing funds an opportunity to take advantage of advancements in technology and reduce burdens.

Lastly, the Commission is proposing that investment companies file Form N-PORT and Form N-CEN in an XML structured format. One alternative is to not structure the information. As discussed, the ability of Commission staff investors, third-party information providers, and other potential users to utilize the information is dependent on the efficiency in which the information investment companies provide can be compiled and aggregated. Commission staff believes that the affected parties to this proposal would experience substantially less benefit from the reporting of investment company

information if the information is not structured. In addition, based on the Commission's understanding of current practices, it is likely that investment companies and third party service providers have systems in place to accommodate the use of XML. Therefore, requiring information in a format such as XML should impose minimal costs. The proposal would require funds to file certain attachments to their reports on Form N-PORT and Form N-CEN, and these attachments would not be required in a structured format. Commission staff believes that only marginal benefits would result from requiring funds to file these attachments in a structured, XML format due to the narrative format of the information provided.

The technology used to structure the data could affect the benefits and costs associated with the proposed rules, and we have therefore considered alternative formats for structuring the data, such as XBRL. Sending a data file from a sender to a recipient requires many conditions to be satisfied, and one of crucial importance to regulatory data collection is the need for validation. XML provides for a built-in validation framework, and is supported in all modern programming languages. Other data formats can achieve validation but through custom software. The nature of the information we are collecting also lends itself to an XML format due to the non-complex requirements to structure the information, and does not necessitate the need for a more robust framework such as XBRL.

G. Request for Comments

Throughout this release, we have discussed the anticipated benefits and costs of the proposed rules and their potential impact on efficiency, competition, and capital formation. While the Commission does not have comprehensive information on all aspects of asset management industry reporting, the Commission is using the data

currently available in considering the effects of the proposals. The Commission requests comment on all aspects of this initial economic analysis, including on whether the analysis has: (1) identified all benefits and costs, including all effects on efficiency, competition, and capital formation; (2) given due consideration to each benefit and cost, including each effect on efficiency, competition, and capital formation; and (3) identified and considered reasonable alternatives to the proposed new rules and rule amendments. We request and encourage any interested person to submit comments regarding the proposed rules, our analysis of the potential effects of the rules and other matters that may have an effect on the proposed rules. The Commission requests that commenters identify sources of data and information as well as provide data and information to assist the Commission in analyzing the economic consequences of the proposed rules. We are also interested in comments on the qualitative benefits and costs we have identified and any benefits and costs we may have overlooked. We urge commenters to be as specific as possible.

Comments on the following questions are of particular interest.

- To what extent would the monthly public reporting or the quarterly public reporting of monthly portfolio investment information aid in the ability of other investors to front-run, predatory trade, or copycat/reverse engineer the investment strategy of reporting funds? To what extent would the monthly public reporting or the quarterly public reporting of monthly portfolio investment information reduce the incentives of fund companies to develop new or alternative strategies, and what would be the effect on fund competition? How would investors benefit from the public reporting of portfolio investment information in the first and

second month of each fiscal quarter as compared to the public reporting of the third month only? Would investors benefit from the quarterly public reporting of monthly portfolio investment information? Why?

- To what extent would the additional information required on Form N-PORT, especially with respect to the contractual terms for debt securities and derivatives, including information describing reference instruments, if any, and to securities lending and repurchase and reverse repurchase result in additional front-running, predatory trading, or copycatting/reverse engineering by other investors? Does this raise any confidentiality or other concerns?
- What are the benefits, costs, and other economic effects from funds providing portfolio investment information in a structured XML format? In particular, what are the effects of structured portfolio investment information on the ability of other investors to front-run, predatory trade, or copycat/reverse engineer the investment strategy of reporting funds? How would the effect of structured portfolio investment information differ between funds that engage in alternative strategies or utilize derivatives as part of its investment strategy and those funds that do not? To what extent would portfolio investment information that is structured reduce the incentives of fund companies to develop new or alternative strategies, and what would be the effect on fund competition? Also, would the public reporting of portfolio investment information in an XML format result in a decrease in the costs to investors from obtaining the information?
- What are the operational benefits and costs to investment companies to file Form N-PORT and Form N-CEN in a structured format? What are the costs to funds

from adapting systems to the new filing requirements? To what extent would the fund industry benefit from a standard format to report information?

- Is there additional information that Form N-PORT and Form N-CEN, as proposed, could require that would aid in the ability of the Commission to oversee the fund industry or that could be beneficial to other potential users? Are any of the proposed information requirements duplicative or unnecessary? What are the benefits and costs of reporting this additional information? Is there information that Form N-PORT and Form N-CEN, as proposed, would require that does not aid in the ability of the Commission to oversee the fund industry and would not benefit other potential users? What are the benefits and costs of not reporting this information?
- What are the costs, benefits, and other economic effects from investment companies reporting risk-sensitivity measures on Form N-PORT? What is the current availability of the measures to investment companies, in particular for more complex or exotic derivatives? Are there competitive or other economic effects from the reporting of risk-sensitivity measures? Would the public reporting of the risk-sensitivity measures disclose information relating to proprietary risk management practices of investment companies?
- To what extent would the proposal affect the ability of investors to understand the investment risks of investment companies as a result of the proposal and to efficiently allocate capital? Would investors be more likely to allocate additional capital to investment companies? What would be the effect on fund competition for investor capital?

- Under what circumstances and to what extent would funds choose to rely on proposed rule 30e-3 by making shareholder reports publicly accessible on a website and satisfying the other conditions of the rule? Would allowing funds that choose to rely on the proposed rule to transmit shareholder reports to their investors "by default" result in more investors viewing shareholder reports in a format that the investors prefer, or would the need for each investor who wishes to receive a printed report to affirmatively "opt-out" of electronic delivery reduce the number of shareholders that receive reports in the format that they prefer? Why or why not? What is the likelihood that investors would mistakenly opt-out and consent to website posting? Lastly, to what extent do investors compare portfolio investment information between fiscal quarters, and would investors benefit from the requirement that a fund's shareholder reports as well as its complete portfolio holdings from its most recent first and third fiscal quarters be publicly accessible on a website?
- What are the costs, benefits, and other economic effects to other market participants including third-party information providers, index providers, and swap dealers? For instance, what would be the economic effects of structured data on the cost to service providers to offer aggregated information to investors? Are there other market participants that would be affected by the proposal that are not discussed above? What are the benefits and costs to these other market participants?
- What are the benefits and costs of providing an additional twelve months for smaller entities to comply with the requirements to file Form N-PORT? Are there

potential costs from smaller fund complexes potentially not providing structured portfolio investment information during the additional twelve months? Are the potential costs, if any, from a loss of disclosed portfolio investment information from small fund complexes mitigated by the amendments to Regulation S-X? Are there other alternatives to the current compliance dates that would be more beneficial or that would be less costly, including with respect to other parts of the proposal? Which alternatives and why?

- What are the costs associated with rescinding N-Q and replacing Form N-SAR? How reliant are investors, third-party information providers, and other interested parties on the data reported on these forms? What are the costs to investors, third-party information providers, and other interested parties to obtain the information from alternative sources? What are the benefits from the amendments to certification requirements of Form N-CSR? What are the costs?
- Are there alternatives to the proposal that the Commission did not consider that would result in a more robust disclosure regime for investment companies? What are the costs associated with those alternatives? Similarly, are there alternatives to the proposal that would result in the same benefits but that would be less costly? Which alternatives and why?

V. PAPERWORK REDUCTION ACT

Proposed new forms, Form N-CEN and Form N-PORT, and proposed new rule 30e-3 contain "collections of information" within the meaning of the Paperwork

Reduction Act of 1995 ("PRA").[732] In addition, the proposed amendments to Articles 6 and 12 of Regulation S-X would impact the collections of information under rules 30e-1 and 30e-2 of the Investment Company Act,[733] and the proposed amendments to Forms N-1A, N-2, N-3, N-4 and N-6 under the Investment Company Act and Securities Act would impact the collections of information under those forms. Furthermore, the proposals would rescind Forms N-Q and N-SAR, thus eliminating the collections of information associated with those forms.

The titles for the existing collections of information are: "Form N-Q – Quarterly Schedule of Portfolio Holdings of Registered Management Investment Company" (OMB Control No. 3235-0578);[734] "Form N-SAR under the Investment Company Act of 1940, Semi-Annual Report for Registered Investment Companies" (OMB Control No. 3235-0330); Rule 30e-1 under the Investment Company Act of 1940, Reports to Stockholders of Management Companies" (OMB Control No. 3235-0025); "Rule 30e-2 pursuant to Section 30(e) of the Investment Company Act of 1940. Reports to Shareholders of Unit Investment Trusts" (OMB Control No. 3235-0494); "Form N-CSR under the Securities Exchange Act of 1934 and under the Investment Company Act of 1940, Certified

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732 44 U.S.C. 3501 through 3521.

733 The paperwork burden from Regulation S-X is imposed by the rules and forms that relate to Regulation S-X and, thus, is reflected in the analysis of those rules and forms. To avoid a PRA inventory reflecting duplicative burdens and for administrative convenience, we have previously assigned a one-hour burden to Regulation S-X.

734 Currently, there is a collection of information associated with rule 30b1-5 under the Investment Company Act. *See* rule 30b1-5, 'Quarterly Report' Originally submitted and approved as Proposed Rule 30b1-4 under the Investment Company Act of 1940, 'Quarterly Report'" (OMB Control No. 3235-0577). Rule 30b1-5 is the rule that requires certain funds to file Form N-Q. Among other things, today's proposals would rescind Form N-Q and require certain funds to file proposed Form N-PORT pursuant to proposed rule 30b1-9. If proposed rule 30b1-9 is adopted, we anticipate discontinuing the information collection for rule 30b1-5.

Shareholder Report of Registered Management Investment Companies" (OMB Control No. 3235-0570); "Form N-1A under the Securities Act of 1933 and under the Investment Company Act of 1940, Registration Statement of Open-End Management Investment Companies" (OMB Control No. 3235-0307); "Form N-2 under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Closed-End Management Investment Companies" (OMB Control No. 3235-0026); "Form N-3 Under the Securities Act of 1933 and Under the Investment Company Act of 1940, Registration Statement of Separate Accounts Organized as Management Investment Companies" (OMB Control No. 3235-0316); "Form N-4 (17 CFR 239.17b) Under the Securities Act of 1933 and (17 CFR 274.11c) Under the Investment Company Act of 1940, Registration Statement of Separate Accounts Organized as Unit Investment Trusts" (OMB Control No. 3235-0318); and "Form N-6 (17 CFR 239.17c) Under the Securities Act of 1933 and (17 CFR 274.11d) Under the Investment Company Act of 1940, Registration Statement of Separate Accounts Organized as Unit Investment Trusts that Offer Variable Life Insurance Policies" (OMB Control No. 3235-0503). We are also submitting new collections of information for proposed new forms, Form N-CEN and Form N-PORT and proposed new rule 30e-3 under the Investment Company Act. The titles for these new collections of information would be: "Form N-CEN Under the Investment Company Act, Annual Report for Registered Investment Companies;" "Form N-PORT Under the Investment Company Act, Monthly Portfolio Investments Report;" "Rule 30e-3 Under the Investment Company Act, Website Transmission of Shareholder Reports." The Commission is submitting these collections of information to the OMB for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. An agency may not conduct or

sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

The Commission is proposing new forms, Form N-CEN and Form N-PORT, new rule 30e-3, and amendments to Regulation S-X and the relevant registration forms, as well as the rescission of Forms N-Q and Form N-SAR as part of a set of reporting and disclosure reforms. These reforms are designed to harness the benefits of advanced technology and to modernize the fund reporting regime in order to help investors and other market participants better assess different fund products and to assist the Commission in carrying out our regulatory functions. We discuss below the collection of information burdens associated with these reforms.

A. Portfolio Reporting

1. Form N-PORT

Under our proposal, certain funds would be required to file an electronic monthly report on proposed Form N-PORT within thirty days after the end of each month. Proposed Form N-PORT is intended to improve transparency of information about funds' portfolio holdings and facilitate oversight of funds. The information required by proposed Form N-PORT would be data-tagged in XML format. The respondents to proposed Form N-PORT would be management investment companies (other than money market funds and small business investment companies) and UITs that operate as ETFs. Compliance with proposed Form N-PORT would be mandatory for all such funds. Responses to the reporting requirements would be kept confidential for reports filed with respect to the first two months of each quarter; the third month of the quarter would not be kept confidential, but made public sixty days after the quarter end.

We estimate that 10,710 funds[735] would be required to file, on a monthly basis, a complete report on proposed Form N-PORT reporting certain information regarding the fund and its portfolio holdings. Based on our experience with other interactive data filings, we estimate that funds would prepare and file their reports on proposed Form N-PORT by either (1) licensing a software solution and preparing and filing the reports in house, or (2) retaining a service provider to provide data aggregation, validation and/or filing services as part of the preparation and filing of reports on proposed Form N-PORT on behalf of the fund. We estimate that 35% of funds (3,749 funds) would license a software solution and file reports on proposed Form N-PORT in house.[736] We further estimate that each fund that files reports on proposed Form N-PORT in house would require an average of approximately 44 burden hours to compile (including review of the information), tag, and electronically file a report on proposed Form N-PORT for the first time[737] and an average of approximately 14 burden hours for subsequent filings.[738]

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[735] This estimate includes 8,731 mutual funds (excluding money market funds), 1,411 ETFs and 568 closed-end funds and is based on ICI statistics as of December 31, 2014 *available at* http://www.ici.org/research/stats.

[736] *See* Money Market Fund Reform 2014 Release, *supra* note 13, at 47945 (adopting amendments to Form N-MFP and noting that approximately 35% of money market funds that report information on Form N-MFP license a software solution from a third party that is used to assist the funds to prepare and file the required information).

[737] We anticipate that these funds would use the same software that was used to generate reports on Form N-Q and that the software vendor offering the Form N-Q software would likely offer an update to that software to handle reports on Form N-PORT. Accordingly, we estimate the burden associated with information that is currently filed on Form N-Q and that would also be filed on Form N-PORT to generally be the same – 10.5 hours per filing. With respect to new data that would be required by Form N-PORT that was not required by Form N-Q, we generally estimate that it would initially take up to 10 hours to connect the software to the new data points. However, because we understand risk metrics data may be located on a different system than portfolio holdings data and because current reporting requirements do not require funds to have a process in place for these two systems to work together, with respect to the new risk metrics data that would be required by Form N-PORT, we estimate that it would initially take up to 15 hours to connect the risk metrics data to the software and

Therefore, we estimate the per fund average annual hour burden associated with proposed Form N-PORT for 3,749 fund filers is 198 hours for the first year[739] and 168 hours for each subsequent year.[740] Amortized over three years, the average aggregate annual hour burden would be 178 hours per fund.[741]

We estimate that 65% of funds (6,962 funds) would retain the services of a third party to provide data aggregation, validation and/or filing services as part of the preparation and filing of reports on proposed Form N-PORT on the fund's behalf.[742] Because reports on Form N-PORT would be filed in a structured format and more frequently than current portfolio holdings reports (*i.e.*, Form N-CSR and Form N-Q), we

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that, once connected, it would take 5 hours to program the risk metrics software to output the required data to the Form N-PORT software. Additionally, we added another 3.5 hours to our estimated initial burden to account for the increased amount of information that would be required to be reported on Form N-PORT, but that is not currently required by Form N-Q. *See infra* note 738 (discussing the additional 30% burden added to the current Form N-Q estimate). We also note that funds that are part of a larger fund complex may realize certain economies of scale when preparing and filing reports on proposed Form N-PORT. For purposes of our analysis, we do not account for such economies of scale.

738 We anticipate that most of the burden associated with licensing a software solution, as discussed above, will be a one-time burden. Accordingly, we estimate approximately 14 hours per fund for subsequent filings. This estimate is based on the 10.5 hours currently estimated for filings on Form N-Q, plus 30% to account for the amount of additional information that would be required to be filed on Form N-PORT. Additionally, because we believe that the required information is generally maintained by funds pursuant to other regulatory requirements or in the ordinary course of business, for the purposes of our analysis, we have not ascribed any time to collecting the required information. *See also supra* note 737 (noting that our estimates do not account for economies of scale).

739 The estimate is based on the following calculation: (1 filing x 44 hours) + (11 filings x 14 hours) = 198 burden hours in the first year.

740 This estimate is based on the following calculation: 12 filings x 14 hours = 168 burden hours in each subsequent year.

741 The estimate is based on the following calculation: (198 + (168 x 2)) / 3 = 178.

742 *See* Money Market Fund Reform 2014 Release, *supra* note 13, at 47945 (adopting amendments to Form N-MFP and noting that approximately 65% of money market funds that report information on Form N-MFP retain the services of a third party to provide data aggregation and validation services as part of the preparation and filing of reports on Form N-MFP).

anticipate that funds and their third-party service providers will move to automate the aggregation and validation process to the extent they do not already use an automated process for portfolio holdings reports. For these funds, we estimate that each fund would require an average of approximately 60 burden hours to compile and review the information with the service provider prior to electronically filing the report for the first time[743] and an average of approximately 9 burden hours for subsequent filings.[744] Therefore, we estimate the per fund average annual hour burden associated with proposed Form N-PORT for 6,962 funds would be 159 hours for the first year[745] and 108 hours for each subsequent year.[746] Amortized over three years, the average aggregate annual hour

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[743] In order to be able to automate the process of communicating data to a third-party service provider so that it can be reported on Form N-PORT, we estimate that it will initially take a fund 60 hours to either procure software and integrate it into its systems or, alternatively, to write its own software. For those funds that already have an automated portfolio reporting process in place, we estimate that they would initially incur the same burden as those funds that license a software solution and file reports on proposed Form N-PORT in house. For these latter funds, however, we are using the higher burden hours estimated for using a third party service provider in order to be conservative in our estimates because we lack data on the number of funds that currently have an automated portfolio reporting process in place. *See supra* note 737 (discussing the burdens associated with licensing a software solution and filing reports on proposed Form N-PORT in house); *see also supra* note 737 (noting that our estimates do not account for economies of scale).

[744] We anticipate that most of the burden associated with third-party aggregation and validation will be the result of creating an automated process, as discussed above, and thus will be a one-time burden. Accordingly, we estimate approximately 9 hours per fund for subsequent filings. This estimate is based on the 10.5 hours currently estimated for filings on Form N-Q, plus 30% to account for the amount of additional information that would be required to be filed on Form N-PORT, and subtracting 5 hours in recognition of the use of a third-party service provider to assist in the preparation and filing of reports on the form. Additionally, because we believe that the required information is generally maintained by funds pursuant to other regulatory requirements or in the ordinary course of business, for the purposes of our analysis, we have not ascribed any time to collecting the required information. *See also supra* note 737 (noting that our estimates do not account for economies of scale).

[745] The estimate is based on the following calculation: (1 filing x 60 hours) + (11 filings x 9 hours) = 159 burden hours per year.

[746] The estimate is based on the following calculation: 12 filings x 9 hours = 108.

burden would be 125 hours per fund.[747] In sum, we estimate that filing reports on proposed Form N-PORT would impose an average total annual hour burden of 1,537,572 on applicable funds. [748]

In addition to the costs associated with the hour burdens discussed above, funds would also incur other external costs in connection with reports on proposed Form N-PORT. Based on our experience with other interactive data filings, we estimate that funds that would file reports on proposed Form N-PORT in house would license a third-party software solution to assist in filing their reports at an average cost of $4,805 per fund per year.[749] In addition, we estimate that funds that would use a service provider to prepare and file reports on proposed Form N-PORT would pay an average fee of $11,440 per fund per year for the services of that third-party provider.[750] In sum, we estimate that all applicable funds would incur on average, in the aggregate, external annual costs of $97,674,221.[751]

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[747] The estimate is based on the following calculation: (159 + (108 x 2)) / 3 = 125.

[748] The estimate is based on the following calculation: (3,749 x 178 hours) + (6,962 x 125 hours) = 1,537,572.

[749] We estimate that money market funds that file reports on Form N-MFP in house license a third-party software solution for approximately $3,696 per fund per year. Due to the increased volume and complexity of the information that would be filed in reports pursuant to proposed Form N-PORT, we have increased our external cost estimate for funds filing in house on proposed Form N-PORT by 30% (or $1,109).

[750] We estimate that money market funds that file reports on Form N-MFP through a third-party service provider pay approximately $8,800 per fund per year. Due to the increased volume and complexity of the information that would be filed in reports pursuant to proposed Form N-PORT, we have increased our estimate for funds filing through a third-party service provider on proposed Form N-PORT by 30% (or $2,640).

[751] This estimate is based on the following calculation: (3,749 funds that would file reports on proposed Form N-PORT in house x $4,809 per fund, per year) + (6,962 funds that would file reports on proposed Form N-PORT using a third-party service provider x $11,440 per fund, per year) = $97,674,221.

2. Rescission of Form N-Q

Our proposed reforms would rescind Form N-Q in order to eliminate unnecessarily duplicative reporting requirements. The proposed rescission of Form N-Q would affect all management investment companies required to file reports on the form.

We currently estimate that each fund requires an average of approximately 21 hours per year to prepare and file two reports on Form N-Q annually, for a total estimated annual burden of 219,513 hours.[752] Accordingly, we estimate that, in the aggregate, our proposed rescission would eliminate the 219,513 annual burden hours associated with filing Form N-Q. Additionally, we currently estimate that there are no external costs associated with the certification requirement or with preparation of reports on Form N-Q in general.

B. Census Reporting

1. Form N-CEN

As proposed, amended rule 30a-1 would require all funds to file reports on proposed Form N-CEN with the Commission on an annual basis.[753] Similar to current Form N-SAR, proposed Form N-CEN would require reporting with the Commission of certain census-type information. However, unlike Form N-SAR, which requires semi-annual reporting for all management investment companies, proposed Form N-CEN would require annual reporting.[754] Proposed Form N-CEN would be a collection of information under the PRA, and is designed to facilitate the Commission's oversight of

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[752] Management investment companies are required to file a quarterly report on Form N-Q after the close of the first and third quarters of each fiscal year.

[753] For purposes of the PRA analysis, the burdens associated with amended rule 30a-1, as proposed, are included in the collection of information estimates of Form N-CEN.

[754] UITs are only required to file Form N-SAR on an annual basis. *See* rule 30a-1.

funds and its ability to monitor trends and risks. This new collection of information would be mandatory for all funds, and responses would not be kept confidential.

The staff estimates that the Commission would receive an average of 3,146 reports per year, based on the number of existing Form N-SAR filers.[755] We estimate that management investment companies would each spend as much as 13.35 hours annually, preparing and filing reports on proposed Form N-CEN.[756] The Commission further estimates that UITs, including separate account UITs, would each spend as much as 9.11 hours annually, preparing and filing reports on proposed Form N-CEN, since a UIT would be required to respond to fewer items.[757]

As discussed below, we currently estimate that management investment companies spend as much as 15.35 hours preparing and filing each report on Form N-SAR. We have generally sought with proposed Form N-CEN, where appropriate, to simplify and decrease the census-type reporting burdens placed on registrants by current Form N-SAR. For example, proposed Form N-CEN would reduce the number of attachments that may need to be filed with the reports and largely eliminate financial statement-type information from the reports. Additionally, we believe that reports in XML on proposed Form N-CEN will be less burdensome to produce than the reports on Form N-SAR currently required to be filed using outdated technology. Accordingly, for management investment companies we believe the estimated hour burden for filing

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[755] This estimate is based on 2,419 management companies and 727 UITs filing reports on Form N-SAR as of December 31, 2014.

[756] Our estimate includes the hourly burden associated with registering/maintaining LEIs for the registrant/funds, which would be required to be included in reports on Form N-CEN.

[757] *See id.*

reports on proposed Form N-CEN should be a reduced burden from the hour burden associated with Form N-SAR.[758] As such, we estimate that the annual hour burden for management companies will be 13.35 per report on proposed Form N-CEN, down from 15.35 hours per report for Form N-SAR.

UITs may, however, experience an increase in the hour burden associated with census-type reporting if proposed Form N-CEN is adopted because UITs would be required to respond to more items in the form than they are currently required to respond to under Form N-SAR. For example, UITs would be required to provide certain background information and attachments in their reports on proposed Form N-CEN, which they are not currently required to provide in their reports on Form N-SAR. As a result, we have increased the annual hour burden for UITs from 7.11 hours in the currently approved collection for Form N-SAR to 9.11 hours for proposed Form N-CEN.

The Commission also believes that, in the first year reports on the form are filed, funds may require additional time to prepare and file reports. We estimate that, for the first year, funds would require 20 additional hours.[759] Accordingly, we estimate that management investment companies would require 33.35 annual burden hours in the first

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[758] We note that reports on Form N-CEN would be filed annually, rather than semi-annually as in the case of reports on Form N-SAR. Thus, while we estimate that the burden associated with each report on Form N-CEN for management companies would be two hours less than the burden associated with each report on Form N-SAR, we estimate that the annual Form N-CEN burden for management companies would actually be 17.35 hours less than that associated with Form N-SAR. This estimate is based on the following calculation: (15.35 Form N-SAR burden hours x 2 reports) – 13.35 Form N-CEN burden hours = 17.35 hours.

[759] This additional time may be attributable to, among other things, reviewing and collecting new or revised data pursuant to the Form N-CEN requirements or changing the software currently used to generate reports on Form N-SAR in order to output similar data in a different format.

year[760] and 13.35 annual burden hours in each subsequent year for preparing and filing reports on proposed Form N-CEN. Additionally, we estimate that UITs would require 29.11 annual burden hours in the first year[761] and 9.11 annual burden hours in each subsequent year for preparing and filing reports on proposed Form N-CEN.

We estimate that the average annual hour burden per response for proposed Form N-CEN for the first year would be 32.37 hours[762] and 12.37 hours in subsequent years.[763] Amortizing the burden over three years, we estimate that the average annual hour burden per fund per year would be 19.04[764] and the total average annual hour burden would be 59,900.[765]

With respect to the initial filing of a report on Form N-CEN, we estimate an external cost of $220 per fund and, with respect to subsequent filings, we estimate an annual external cost of $120 per fund.[766] We estimate the amortized annual external cost per fund would be $153.[767] We currently estimate that no external cost burden is associated with Form N-SAR. External costs include the cost of goods and services, which with respect to reports on Form N-CEN, would include the costs of registering and

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760 This estimate is based on the following calculation: 13.35 hours for filings + 20 additional hours for the first filing = 33.35 hours.

761 This estimate is based on the following calculation: 9.11 hours for filings + 20 additional hours for the first filing = 29.11 hours.

762 This estimate is based on the following calculation: ((2,419 management investment companies x 33.35 hours) + (727 UITs x 29.11 hours)) / 3,146 total funds = 32.37 hours.

763 This estimate is based on the following calculation: ((2,419 management investment companies x 13.35 hours) + (727 UITs x 9.11 hours)) / 3,146 = 12.37 hours.

764 This estimate is based on the following calculation: (32.37 + (12.37 x 2)) / 3 = 19.04.

765 This estimate is based on the following calculation: 3,146 x 19.04 = 59,900.

766 *See supra* note 46 (discussing the costs associated with registering and maintaining an LEI).

767 This estimate is based on the following calculation: $220 + (2 years x $120) / 3 = $153.

maintaining an LEI for the registrant/funds.[768] In sum, we estimate that all applicable funds would incur, in the aggregate, external annual costs of $1,748,637.[769]

2. Rescission of Form N-SAR

Our proposed reforms would rescind Form N-SAR in order to eliminate unnecessarily duplicative reporting requirements. The proposed rescission would affect all management investment companies and UITs.

We currently estimate that the weighted average annual hour burden per response for Form N-SAR is 14.25 hours,[770] with a total annual hour burden for all respondents of approximately 82,223 hours. Accordingly, we estimate that, in the aggregate, our proposed rescission would eliminate the 82,223 annual burden hours associated with filing Form N-SAR. Additionally, we currently estimate that there are no external costs associated with preparation of reports on Form N-SAR.

C. Amendments to Regulation S-X

1. Rule 30e-1

Section 30(e) of the Investment Company Act requires every registered investment company to transmit to its stockholders, at least semiannually, reports containing such information and financial statements or their equivalent, as of a reasonably current date, as the Commission may prescribe by rules and regulations.[771]

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[768] *See* Items 2.d. and 25.c. of Form N-CEN (requiring LEI for the registrant and each management company).

[769] This estimate is based on the following calculation: $153 x 11,429 funds = $1,748,637; *see infra* note 799 (explaining the calculation of 11,429 funds).

[770] This weighted estimate accounts for management companies filing reports on Form N-SAR twice a year and UITs filing reports on Form N-SAR once a year.

[771] Section 30(e).

Rule 30e-1 generally requires management investment companies to transmit to their shareholders, at least semi-annually, reports containing the information that is required to be included in such reports by the fund's registration statement form under the Investment Company Act.[772] Pursuant to this rule and Forms N-1A and N-2, management investment companies are required to include the financial statements required by Regulation S-X in their shareholder reports.[773]

Rule 30e-1 also permits, under certain conditions, delivery of a single shareholder report to investors who share an address ("householding").[774] Specifically, rule 30e-1 permits householding of annual and semi-annual reports by management companies to satisfy the transmission requirements of rule 30e-1 if, in addition to the other conditions set forth in the rule, the management company has obtained from each applicable investor written or implied consent to the householding of shareholder reports at such address. The rule requires management companies that wish to household shareholder reports with implied consent to send a notice to each applicable investor stating, among other things, that the investors in the household will receive one report in the future unless the investors provide contrary instructions. In addition, at least once a year, management companies relying on the householding provision must explain to investors who have provided written or implied consent how they can revoke their consent.

Compliance with the disclosure requirements of rule 30e-1 is mandatory. Responses to the disclosure requirements are not be kept confidential.

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772 Rule 30e-1.

773 *See* Item 27 of Form N-1A and Item 24 of Form N-2.

774 *See* rule 30e-1(f).

Based on staff conversations with fund representatives, we currently estimate that it takes approximately 84 hours per fund to comply with the collection of information associated with rule 30e-1, including the householding requirements. This time is spent, for example, preparing, reviewing, and certifying the reports. The current total estimated annual hour burden of responding to rule 30e-1 is approximately 903,000 hours.[775]

As discussed above, we are proposing certain amendments to Articles 6 and 12 of Regulation S-X. As outlined in Part II.C. above, the amendments would: (1) require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased options; (2) update the disclosures for other investments, as well as reorganize the order in which some investments are presented; (3) amend the rules regarding the general form and content of fund financial statements; and (iv) require a new disclosure in the notes to the financial statements relating to a fund's securities lending activities.[776]

We estimate that that there are 11,230 management companies that would have to comply with these amendments.[777] In addition, we estimate that these amendments would likely increase the time spent preparing, reviewing and certifying reports, if adopted. The extent to which a fund's burden would increase as a result of the proposed

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[775] This estimate is based on the following calculation: 84 hours per fund x 10,750 funds (the estimated number of portfolios the last time the rule's information collections were submitted for PRA renewal in 2012) = 903,000 hours.

[776] Our amendments would also require prominent placement of disclosures regarding investments in derivatives in a fund's financial statements, rather than allowing such schedules to be placed in the notes to the financial statements. *See supra* Part II.C.

[777] This estimate includes 9,259 mutual funds (including money market funds), 1,403 ETFs (1,411 ETFs – 8 UIT ETFs) and 568 closed-end funds and is based on internal SEC data as well as ICI statistics as of December 31, 2014 *available at* http://www.ici.org/research/stats.

amendments would depend on the extent to which the fund invests in the instruments covered by many of the amendments. We estimate that, on an annual basis, funds generally will incur an additional 9 burden hours in the first year[778] and an additional 3 burden hours for filings in subsequent years in order to comply with the proposed amendments.[779] Amortized over three years, the average annual hour burden associated with the amendments for Regulation S-X would be 5 hours per fund.[780] Accordingly, the estimated total annual average hour burden associated with the amendments would be 56,150.[781]

We estimate that the annual external cost burden of compliance with the information collection requirements of rule 30e-1, which is currently $31,061 per fund,

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[778] With respect to the amendments to Article 6 of Regulation S-X, we estimate that each fund would spend an average of five hours to initially comply with the amendments. For example, amendments to Article 6-07.1 would likely require funds to identify non-cash income and put a process in place to capture it in the financial statements. In addition, some funds would also likely move their schedules from financial statement notes to the financial statements themselves. With respect to the amendments requiring disclosure of the components of a custom basket/index, some funds voluntarily provide this disclosure now, but others do not; we recognize that funds would be affected by this requirement differently depending on their investments.

With respect to the amendments to article 12 of Regulation S-X, we estimate each fund would spend an average of four hours to initially comply with the amendments. For example, while accounting guidance already requires funds to identify the level of each security (such as Level 3 securities), we estimate there will be an increased burden in adding another note to the financial statements. This increased burden would vary depending on the information already reported by funds in their financial statements. Likewise, while many funds voluntarily identify illiquid securities in their schedule of investments, the funds that do not make this disclosure would bear an initial burden to comply with these amendments.

[779] With respect to the amendments to Article 6 of Regulation S-X, we estimate each fund would require two hours to comply with the requirements in each subsequent year. We likewise estimate that each fund would require one hour to comply with the requirements of the proposed amendments to Article 12 in each subsequent year.

[780] The estimate is based on the following calculation: (9 hours + (3 hours x 2)) / 3 = 5.

[781] The estimate is based on the following calculation: 5 hours x 11,230 management investment companies = 56,150.

will not change as a result of the proposed amendments to Regulation S-X.[782] We further estimate that the total annual external cost burden for rule 30e-1 would be $348,815,030.[783] External costs include, for example, the costs for funds to prepare, print, and mail the reports.

2. Rule 30e-2

Rule 30e-2 requires registered UITs that invest substantially all of their assets in shares of a management investment company to send their unitholders annual and semiannual reports containing financial information on the underlying company.[784] Specifically, rule 30e-2 requires that the report contain all the applicable information and financial statements or their equivalent, required by rule 30e-1 under the Investment Company Act to be included in reports of the underlying fund for the same fiscal period.[785] Rule 30e-2 also permits UITs to rely on the householding provision in rule 30e-1 to transmit a single shareholder report to investors who share an address.[786]

Compliance with the disclosure requirements of rule 30e-2 is mandatory. Responses to the disclosure requirements are not kept confidential.

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[782] Because the proposed amendments would largely reorganize information currently reported by funds in their financial statements, either voluntarily or because it is required, we do not believe the external costs, such as printing and mailing costs, will increase as a result of the amendments.

[783] This estimate is based on the following calculation: 11,230 funds x $31,061 = $348,815,030. The current total annual cost burden of rule 30e-1 is $333,905,750, which reflects the higher estimated number of funds subject to rule 30e-1 at the time of the last renewal for the rule. *See supra* note 775.

[784] Rule 30e-2.

[785] As discussed above, rule 30e-1 (together with Forms N-1A and N-2) essentially requires management investment companies to transmit to their shareholders, at least semi-annually, reports containing the financial statements required by Regulation S-X.

[786] *See* rule 30e-2(b); *see also supra* note 774 and accompanying text.

The Commission currently estimates that the annual burden associated with rule 30e-2, including the householding requirements, is 121 hours per respondent. The Commission currently estimates that the total hour burden is approximately 91,960 hours.[787]

As discussed above, we are proposing certain amendments to Articles 6 and 12 of Regulation S-X that, if adopted, would likely increase the time spent preparing, reviewing and certifying reports.[788] The extent to which a UIT's burden increases as a result of the proposed amendments would depend on the extent to which an underlying fund invests in the instruments covered by many of the amendments. We estimate that there are 727 UITs that may be subject to the proposed amendments.[789] We also estimate that, on an annual basis, UITs generally will incur an additional 9 burden hours in the first year[790] and an additional 3 burden hours for filings in subsequent years in order to comply with the proposed amendments.[791] Amortized over three years, we estimate that the average annual hour burden associated with the proposed amendments would be 5

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[787] 760 UITs (the estimated number of UITs the last time the rule's information collections were submitted for PRA renewal in 2012) x 121 hours per UIT = 91,960.

[788] As discussed above, the amendments would: (1) require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased options; (2) update the disclosures for other investments, as well as reorganize the order in which some investments are presented; (3) amend the rules regarding the general form and content of fund financial statements; and (iv) require a new disclosure in the notes to the financial statements relating to a fund's securities lending activities. In addition, our amendments would also require prominent placement of disclosures regarding investments in derivatives in a fund's financial statements, rather than allowing such schedules to be placed in the notes to the financial statements.

[789] This estimate is based on the number of UITs that filed Form N-SAR with the Commission as of December 31, 2014.

[790] *See supra* note 778.

[791] *See supra* note 779.

hours per fund.[792] Accordingly, we estimate that the total average annual hour burden associated with the proposed amendments to Regulation S-X would be 3,635 hours.[793]

In addition, we estimate that the annual external cost burden of compliance with the information collection requirements of rule 30e-2, which are currently $20,000 per respondent, will not change as a result of the proposed amendments to Regulation S-X.[794] We further estimate that the total annual external cost burden for rule 30e-2 would be $14,540,000.[795] External costs include, for example, the costs for the funds to prepare, print, and mail the reports.

D. Option for Website Transmission of Shareholder Reports

We are also proposing new rule 30e-3, which would permit, but not require, a fund to transmit its reports to shareholders by posting them on its website, as long as the fund meets certain other conditions of the rule regarding (a) availability of the report and other materials, (b) shareholder consent, (c) notice to shareholders, and (d) delivery of materials upon request of the shareholder.[796] Reliance on the rule would be voluntary; however, compliance with the rule's conditions is mandatory for funds relying on the rule. Responses to the information collections would not be kept confidential.

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[792] The estimate is based on the following calculation: (9 hours + (3 hours x 2)) / 3 = 5.

[793] The estimate is based on the following calculation: 5 hours x 727 UITs = 3,635.

[794] *See supra* note 782.

[795] This estimate is based on the following calculation: 727 UITs x $20,000 = $14,540,000. The current total annual cost burden of rule 30e-2 is $15,200,000, which reflects the higher estimated number of UITs at the time of the last renewal for the rule. *See supra* note 787.

[796] *See* proposed rule 30e-3.

1. Availability of Report and Other Materials and Delivery Upon Request

Proposed rule 30e-3 would provide that a fund's annual or semiannual report to shareholders would be considered transmitted to a shareholder of record if certain conditions set forth in the rule are satisfied. Among these conditions are the requirements that (i) the fund's shareholder report, any previous shareholder report transmitted to shareholders of record within the last 244 days, and in the case of a fund that is not an SBIC, the fund's complete portfolio holdings as of the close of its most recent first and third fiscal quarters, be publicly accessible, free of charge, at a specified website address,[797] and (ii) the fund (or a financial intermediary through which shares of the fund may be purchased or sold) must send a paper copy of any of the materials discussed in (i) above to a shareholder upon request.[798]

We estimate that 11,957 funds could rely on proposed new rule 30e-3.[799] Of these funds, we estimate that 90% of all funds (or 10,761 funds) would rely on proposed rule 30e-3.[800] Of this 10,761, we estimate 9,634 are funds relying on the summary prospectus

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[797] Proposed rule 30e-3(b)(1)(i)-(iii).

[798] Proposed rule 30e-3(e).

[799] This estimate includes 9,259 mutual funds (including money market funds), 1,403 ETFs (1,411 ETFs – 8 UIT ETFs), 568 closed-end funds, and 727 UITs (including UIT ETFs) based on ICI statistics, Form N-SAR filings, and internal SEC data as of December 31, 2014. *See* ICI statistics *available at* http://www.ici.org/research/stats.

[800] Open-end funds relying on the summary prospectus rule, rule 498 under the Securities Act, are required to post their annual and semi-annual reports online. *See* rule 498(e)(1). In 2014, 9,634 funds filed a summary prospectus, which amounts to 90% of all open-end funds (9,634 / (9,259 mutual funds + 1,403 ETFs (not including UITs))). Because these funds are already posting their shareholder reports online, we estimate that they will rely on proposed rule 30e-3 to transmit their reports. Based on the percentage of funds that rely on the summary prospectus rule, which, like proposed rule 30e-3, requires posting of documents online while also reducing printing and mailing costs for funds, we estimate that 90% of closed-end funds and UITs (or 1,166 funds ((568 closed-end funds + 727 UITs) x 90%) will rely on proposed

rule (rule 498 under the Securities Act) and, thus, currently posting annual and semiannual shareholder reports on their websites. Accordingly, with respect to these funds, we estimate that annual compliance with the posting requirements of proposed rule 30e-3 will require a half hour burden per fund.[801]

Of the remaining funds estimated to rely on proposed rule 30e-3, we further estimate that approximately 90% of those funds[802] (or 1,014 funds) already have a website.[803] With respect to these funds, we estimate that the posting requirements of proposed rule 30e-3 will require a one and half hour burden per fund to post the required documents online, both in the first year and annually thereafter. For the remaining 10% of funds (or 113 funds) that we estimate will rely on the proposed rule but that do not have a website,[804] we estimate initial compliance with the posting requirements will require approximately 24 hours per fund of internal fund staff time to develop a webpage

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rule 30e-3. Accordingly, we estimate that 90% of all funds ((9,634 open-end funds + 1,166 other funds) / 11,957 funds) would also rely on proposed rule 30e-3.

[801] Because each of these funds is already required to have a website and to post its annual and semiannual shareholder reports on this website, we estimate that proposed rule 30e-3 will only result in each of these funds incurring a half hour burden per year to post their first and third quarter portfolio holdings on their websites, including in the first year of compliance with the rule.

[802] *See* Money Market Fund Reform 2010 Release, *supra* note 13, at 10092 (estimating that 20% of money market funds would have to develop a website in connection with new website posting requirements). Because five years have passed since we estimated 80% of money market funds had websites, and given the increased use of the Internet, we believe it is appropriate to estimate that 90% of funds currently have websites.

[803] This estimate is based on the following calculation: (10,761 funds – 9,634 open-end funds relying on the summary prospectus rule) x 90% = 1,014 funds.

[804] This estimate is based on the following calculation: (10,761 funds – 9,634 open-end funds relying on the summary prospectus rule) x 10% = 113 funds.

and post the required documents on the webpage.[805] In addition, we estimate that each of these funds would spend approximately four hours of professional time to maintain and update a webpage with the required information on a quarterly basis.[806]

Accordingly, we estimate that the posting requirements will result in an average annual hour burden of 0.84 hours per fund in the first year of compliance[807] and 0.76 hours per fund for each of the next two years.[808] Amortized over three years, the average annual hour burden would be 0.79 hours per fund.[809] In sum, we estimate that the posting requirements of proposed rule 30e-3 would impose an average total annual hour burden of 8,447 hours on applicable funds.[810]

In addition, with respect to those funds that would rely on proposed rule 30e-3 but that do not currently have a website, we estimate that the posting requirements of the

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[805] *See* Money Market Fund Reform 2010 Release, *supra* note 13, at 10092 (estimating 24 hours of internal staff time to develop a webpage). Funds that are part of a larger fund complex may realize certain economies of scale in connection with creating a website. For purposes of our analysis, we do not account for such economies of scale.

[806] *See id.* (estimating 4 hours of professional time to maintain and update a webpage with the required money market fund information on a monthly basis). Funds that are part of a larger fund complex may realize certain economies of scale in connection with maintaining and updating a website. For purposes of our analysis, we do not account for such economies of scale.

[807] This estimate is based on the following calculations: 9,634 open-end funds relying on the summary prospectus rule x .5 hours = 4,817 hours; 1,014 funds with a website but not relying on the summary prospectus rule x 1.5 hours = 1,521 hours; 113 funds without a website x 24 hours in the first year = 2,712 hours; 4,817 hours + 1,521 hours + 2,712 hours = 9,050; 9,050 / 10,761 = 0.84 hours.

[808] This estimate is based on the following calculations: 9,634 open-end funds relying on the summary prospectus rule x .5 hours = 4,817 hours; 1,014 funds with a website but not relying on the summary prospectus rule x 1.5 hours = 1,521 hours; 113 funds without a website x (4 hours x 4 quarters) = 1,808 hours; 4,817 + 1,521 + 1,808 = 8,146; 8,146 / 10,761= 0.76 hours.

[809] The estimate is based on the following calculation: (0.84 + (0.76 x 2)) / 3 = 0.79 hours.

[810] This estimate is based on the following calculations: 9,050 hours for the first year + (8,146 hours x the 2 following years) = 25,342; 25,342 / 3 = 8,447.

proposed rule will result in an external cost burden of $2000 per fund in the first year to develop a website,[811] but no cost burden in subsequent years.[812] We further estimate that the amortized annual external cost burden associated with developing a website would be $667.[813] In the aggregate, we estimate that the annual total external cost burden with respect to these funds would be $75,371.[814] With respect to those funds that currently have websites, we estimate that the posting requirements of the proposed rule will not result in any external costs.[815] The external cost burden is the cost of goods and services purchased in connection with complying with the rule, which, with respect to the posting requirements, would include costs associated with development of a website.

Furthermore, we also estimate that funds may incur external costs in connection with the requirement to provide a complete shareholder report upon request of a shareholder. We estimate that the annual costs associated with printing and mailing these

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[811] *See, e.g., How Much Should a Web Design Cost, Budgeting for a Professional Design for a Small Business Website*, *available at* http://webdesign.about.com/od/beforeyoustartawebsite/a/how-much-should-a-web-design-cost.htm (suggesting that a fairly basic website would cost $1250-$1500); *What Does a Website Cost? Website Development Costs, available at* http://www.atilus.com/what-does-a-website-cost-web-site-development-costs/ (suggesting a basis website can be created for $2000-$5000). We believe that a website developed for purposes of proposed rule 30e-3 could be fairly basic considering the website would only need to accommodate posting of the required documents.

[812] We believe the collection of information burden in subsequent years will be handled internally and have, therefore, accounted for this burden in our estimate of the hourly burden for subsequent years. *See supra* note 806.

[813] This estimate is based on the following calculation: $2000 / 3 = $667.

[814] This estimate is based on the following calculation: 113 funds x $667 = $75,371.

[815] Because these funds maintain their websites for reasons other than compliance with proposed rule 30e-3, we do not attribute any costs related to such maintenance to proposed rule 30e-3.

reports would be $500 per fund.[816] Accordingly, we estimate that the aggregate annual external costs associated with printing and mailing shareholder reports upon request would be $5,380,500. [817] Together with the external costs for those funds that would rely on proposed rule 30e-3 but that do not currently have a website, we estimate that the posting and shareholder request requirements of the proposed rule will result in an annual external cost burden of $5,455,871.[818]

2. Shareholder Consent and Notice

Proposed rule 30e-3 would permit electronic transmission of a shareholder report to a particular shareholder only if the shareholder has either previously consented to this method of transmission or has been determined to have provided implied consent under certain conditions specified in the rule.[819] One of the conditions for implied consent requires that the fund transmit to the shareholder an Initial Statement, at least 60 days

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[816] As noted above, we estimate the external costs associated with rules 30e-1 and 30e-2 (the rules relating to shareholder reports) to be $31,061 and $20,000, respectively. These costs account for preparation and transmission of complete shareholder reports twice a year in paper to shareholders. We estimate that one-third of these external costs are attributed to printing and mailing shareholder reports. Additionally, we estimate that 5% of shareholders may request paper copies of shareholder reports transmitted via website pursuant to proposed rule 30e-3. In this regard, we note that shareholders preferring paper copies of shareholder reports will also have the ability to return the postage-paid, pre-addressed reply card that all shareholders will receive with their Initial Statement to indicate that they want to opt-out of website transmission. *See* Part II.D.3.b. above (discussing the Initial Statement). Accordingly, we believe that only a small percentage of shareholders whose shareholder reports are transmitted via website will request paper copies. In order to be conservative in our estimates, we have multiplied 5% by $10,000, which is approximately one-third of the external costs associated with management companies' shareholder reports ($31,061 / 3 = $10,354), which are higher than the external costs associated with UITs' shareholder reports. Thus, we estimate that the external costs associated with providing complete shareholder reports upon request would be $500 (5% x $10,000).

[817] This estimate is based on the following calculation: $500 x 10,761 funds = $5,380,500.

[818] This estimate is based on the following calculation: $5,380,500 + $75,371 = $5,455,871.

[819] *See* proposed rule 30e-3(c).

before it begins to rely on the rule, notifying the shareholder of the fund's intent to make future shareholder reports available on the fund's website until the shareholder revokes consent. Additionally, proposed rule 30e-3 would require funds relying on the rule with respect to a shareholder who has consented to electronic transmission to send a Notice containing certain information to the shareholder within 60 days of the close of the fiscal period to which the report relates.[820] The proposed rule would also require funds to file a form of the Notice with the Commission not later than 10 days after the Notice is sent to shareholders.[821]

As discussed in Part V.D.1. above, we estimate that 90% of all eligible funds (or 10,761 funds) will choose to rely on proposed rule 30e-3.[822] For those funds relying on the rule, we estimate that it will take each fund one and a half hours to prepare the Initial Statement in the first year of compliance with the rule.[823] We further estimate that each fund will incur a half hour burden in subsequent years to the extent the fund has shareholders that have not previously consented to website transmission of the fund's shareholder reports.[824] We also estimate that each fund will incur two hours to prepare

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820 *See* proposed rule 30e-3(d).

821 *See* proposed rule 30e-3(d)(7).

822 *See supra* note 800 and accompanying text.

823 *See* Internet Availability of Proxy Materials, Exchange Act Release No. 55146 (Jan. 22, 2007) [72 FR 4148, 4161 (Jan. 29, 2007)] ("Proxy Notice Release") (estimating the annual burden for an issuer or other soliciting person to prepare a notice of Internet availability of proxy materials ("proxy notice") to be approximately one and half hours). We estimate that the length and breadth of the Initial Statement would be similar to that of a proxy notice.

824 Based our initial hour burden estimate for the Initial Statement, and given that a fund will only have to provide the Initial Statement in subsequent years to those shareholders who have not previously consented, we believe the subsequent hour burden will be minimal. Accordingly, we have estimated a half hour burden per fund in subsequent years.

and file the first Notice in the first year[825] and an hour for each subsequent notice.[826] Additionally, with respect to both the Initial Statement and the Notice, we estimate that 75% of the annual hour burden would be incurred by the fund and that 25% of the burden would be incurred by outside counsel retained by the fund.[827]

Accordingly, we estimate that the Initial Statement will result in an average hourly burden per fund of 1.3 hours in the first year[828] and 0.38 hours in each subsequent year.[829] Amortized over three years, the average annual hour burden associated with the Initial Statement would be 0.69 hours per fund.[830] In addition, we estimate that the Notice will result in an average annual hour burden of 2.3 hours per fund in the first year [831] and 1.5 hours per fund in each subsequent year.[832] Amortized over three years, the

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[825] *See supra* note 823. We estimate that the length and breadth of the Notice would be similar to that of a proxy notice. However, under proposed rule 30e-3, a Notice would also have to be separately filed with the Commission. Accordingly, we have increased the initial estimated hour burden for the Notice to two hours versus the hour and half estimated hour burden for the proxy notice. In addition, a fund relying on the proposed rule would have to prepare and send a notice to relevant shareholders, and file the notice with the Commission, twice a year – once for the annual shareholder report and once for the semiannual shareholder report. In the first year of compliance with the rule, we estimate that the fund would need two hours to prepare and file the first notice and one hour to prepare and file the second notice, for a total of three hours in the first year of compliance.

[826] Based our initial hour burden estimate for the Notice, and given that a fund will likely use its original Notice as a template for subsequent notices but will also have to file each Notice with the Commission, we believe one hour burden per fund per subsequent filing is an appropriate estimate. As noted above, a fund would have to prepare and file a Notice twice a year. As such, we estimate the hour burden for each fund in subsequent years would be two hours.

[827] *See* Proxy Notice Release, *supra* note 823 (estimating 75% of the proxy notice burden would be prepared by the issuer and that 25% of the burden would be prepared by outside counsel retained by the issuer).

[828] The estimate is based on the following calculation: 1.5 hours x 75% = 1.3 hours.

[829] The estimate is based on the following calculation: 0.5 hours x 75% = 0.38 hours.

[830] The estimate is based on the following calculation: (1.3 hours + (2 years x 0.38 hours))/ 3 years = 0.69 hours.

[831] The estimate is based on the following calculation: (2 hours + 1 hour) x 75% = 2.3 hours.

average annual hour burden associated with the Notice would be 1.8 hours per fund.[833] In sum, we estimate that the shareholder consent and Notice requirements of proposed rule 30e-3 would impose an average total annual hour burden of 8,932 hours on applicable funds.[834]

In addition, we estimate that funds will incur external costs if they rely on proposed rule 30e-3. The external cost burden is the cost of goods and services purchased in connection with complying with the rule, which, with respect to the Initial Statement and Notice, we estimate would include the costs associated with outside counsel and printing and mailing costs.

We estimate outside counsel retained by the fund will incur 25% of the hourly burden associated with each of the Initial Statement and Notice at a rate of $380 per hour.[835] Accordingly, we estimate that outside counsel costs associated with the Initial Statement will result in an average cost burden per fund of $144 in the first year,[836] $49 in subsequent years, [837] and amortized over three years, $81.[838] Additionally, we estimate

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[832] The estimate is based on the following calculation: (1 hour + 1 hour) x 75% = 1.5 hours.

[833] The estimate is based on the following calculation: (2.3 hours + (2 years x 1.5 hours)) / 3 years = 1.8 hours.

[834] This estimate is based on the following calculations: (0.69 hours for the Initial Statement x 10,761 funds) + (1.8 hours for the Notice x 10,761 funds) = 26,795; 26,795 hours / 3 years = 8,932.

[835] This estimate is based on the rate for attorneys in SIFMA's Management and Professional Earnings in the Securities Industry 2013, modified by Commission staff to account for an 1800-hour work year and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[836] The estimate is based on the following calculation: 1.5 hours associated with x 25% = 0.38 hours; 0.38 hours x $380 = $144.

[837] The estimate is based on the following calculation: 0.5 hours x 25% = 0.13 hours; 0.13 hours x $380 = $49.

that outside counsel costs associated with the Notice will result in an average cost burden per fund of $285 in the first year,[839] $190 in subsequent years, [840] and amortized over three years, $222.[841] In sum, we estimate that the outside counsel costs related to the shareholder consent and Notice requirements of proposed rule 30e-3 would impose an annual average total cost burden of $3,260,583 on applicable funds.[842]

We also estimate that, in the first year, each fund will incur approximately $1000 in printing and mailing costs related to each of the first Initial Statement and Notice.[843] In subsequent years, we estimate each fund will incur $333 in printing and mailing costs

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838 The estimate is based on the following calculation: ($144 + (2 years x $49)) / 3 = $81.

839 The estimate is based on the following calculation: (2 hours + 1 hour) x 25% = 0.75 hours; 0.75 hours x $380 = $285.

840 The estimate is based on the following calculation: (1 hour + 1 hour) x 25% = 0.5 hours; 0.5 hours x $380 = $190.

841 The estimate is based on the following calculation: ($285 + (2 years x $190)) / 3 = $222.

842 This estimate is based on the following calculations: ($81 for the Initial Statement x 10,761 funds) + ($222 for the Notice x 10,761) = $3,260,583.

843 As noted above, we estimate the external costs associated with rules 30e-1 and 30e-2 (the rules relating to shareholder reports) to be $31,061 and $20,000, respectively. These costs account for preparation and transmission of complete shareholder reports twice a year in paper to shareholders. We estimate that one-third of these external costs are attributed to printing and mailing shareholder reports. We estimate that the Initial Statement and Notice would require significantly less be spent on printing and mailing costs given the significantly smaller size of the documents. Accordingly, we estimate that each of the Initial Statement and Notice would require 10% of the printing and mailing costs associated with complete shareholder reports. We also estimate that there would be no other external costs attributable to the Initial Statement or Notice. In order to be conservative in our estimates, we have multiplied 10% by $10,000, which is approximately one-third of the external costs associated with management companies' shareholder reports ($31,061 / 3 = $10,354), which are higher than the external costs associated with UITs' shareholder reports. Thus, we estimate that the initial printing and mailing costs associated with each of the Initial Statement and Notice would be $1000 (10% x $10,000). Additionally, however, with respect to the Notice, we note that a fund would send two Notices a year - one for each shareholder report. Accordingly, we estimate that the printing and mailing costs associated with the Notice would be $2000 ($100 x 2 Notices) in the first year.

related to the Initial Statement[844] and $1000 with respect to each Notice.[845] Amortized over three years, we estimate that the Initial Statement will result in $555 annual cost burden per fund[846] and the Notice will result in a $2000 annual cost burden per fund.[847] In sum, we estimate that the printing and mailing costs related to the shareholder consent and Notice requirements of proposed rule 30e-3 would impose an average annual total cost burden of $27,494,355 on applicable funds.[848] Accordingly, together with the costs associated with outside counsel, we estimate that the shareholder consent and Notice requirements of the proposed rule would impose an average annual total cost burden of $30,754,938.[849]

In total, proposed rule 30e-3 would impose an average total annual hour burden of 17,379 hours on applicable funds[850] and a total annual external cost burden of $36,210,809 on applicable funds.[851]

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[844] Given that funds will only have to send the Initial Statement to shareholders who have not yet consented (*e.g.,* new shareholders), we estimate that the external cost burden in subsequent years would only be one-third the cost of the first Initial Statement ($1000 / 3 = $333).

[845] We do not believe the external costs associated with printing and mailing the Notice will be different in subsequent years because proposed rule 30e-3 specifies the information to be included in the Notice, which must be sent each time a shareholder report is transmitted. As noted above, funds would send two Notices a year - one for each shareholder report. Accordingly, we estimate that the printing and mailing costs associated with the Notice would be $2000 ($1000 x 2 Notices) in each subsequent year.

[846] This estimate is based on the following calculation: ($1000 + (2 years x $333)) / 3 = $555.

[847] This estimate is based on the following calculation: ($2000 per year x 3 years) / 3 = $2000.

[848] This estimate is based on the following calculations: ($555 for the Initial Statement x 10,761 funds) + ($2000 for the Notice x 10,761) = $27,494,355.

[849] This estimate is based on the following calculations: $3,260,583+ $27,494,355 = $30,754,938.

[850] This estimate is based on the following calculation: 8,447 hours for the posting requirements + 8,932 hours for the written shareholder consent statement and Notice requirements = 17,379 hours.

3. Impact on Information Collections for Rules 30e-1 and 30e-2

As discussed in Sections V.C.1. and 2. above, rule 30e-1 under the Investment Company Act requires management companies to transmit semi-annual reports to their shareholders and rule 30e-2 under the Investment Company Act requires certain UITs to similarly transmit semi-annual reports to their unitholders.[852] Also as discussed above, we currently estimate, with respect to rule 30e-1, that each fund incurs an annual hourly burden of 84 hours[853] and an annual external cost burden of $31,061 per fund.[854] Additionally, with respect to rule 30e-2, we currently estimate that each UIT respondent incurs an annual hourly burden of 121 hours per fund[855] and an annual external cost burden of $20,000 per fund.[856]

As discussed above, we estimate that 90% of all funds will rely on proposed rule 30e-3. In addition, we estimate that a fund's hourly burden associated with rule 30e-1 or rule 30e-2 will not change as result of proposed rule 30e-3. However, we estimate that, for those funds that rely on proposed rule 30e-3, the fund's external cost burden would decrease. In this regard, we estimate that for 90% of funds relying on rule 30e-3, their

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[851] This estimate is based on the following calculation: $5,455,871 + $30,754,938 = $36,210,809.

[852] *See supra* notes 784 and 785 and accompanying text.

[853] As discussed in Part V.C.1., the current estimated total annual hourly burden for all funds is 903,000 hours. *See supra* note 775.

[854] As discussed in Part V.C.1., the current total estimated annual cost burden for all funds is $333,905,750. *See supra* note 783.

[855] As discussed in Part V.C.2., the current estimated total annual hourly burden for all UIT respondents is 91,960 hours. *See supra* note 787.

[856] As discussed in Part V.C.2., the current total estimated annual cost burden for all UIT respondents is $15,200,000. *See supra* note 795.

annual cost burden related to rule 30e-1 would decrease from $31,061 to $20,707.[857] Additionally, we estimate that for the 90% of funds relying on rule 30e-3, their annual cost burden related to rule 30e-2 would decrease from $20,000 to $13,333.[858] Accordingly, if proposed rule 30e-3 is adopted, we estimate that for 90% of management companies the total annual external cost burden for rule 30e-1 would be $209,285,649[859] and the total annual external cost burden for all management companies under rule 30e-1 would be $244,167,152.[860] Additionally, if proposed rule 30e-3 is adopted, we estimate that for 90% of UITs the total annual external cost burden for rule 30e-2 would be $8,719,782[861] and the total annual external cost burden for all UITs under rule 30e-2 would be $10,179,782.[862]

E. Amendments to Certification Requirements of Form N-CSR

In connection with the rescission of Form N-Q, we are proposing to amend Form N-CSR, the reporting form used by management companies to file certified shareholder

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[857] As discussed above, we estimate that one-third of the external costs currently attributed to rule 30e-1 relate to printing and mailing costs, which would not be applicable to management companies relying on proposed rule 30e-3. Accordingly, our estimate is based on the following calculation: $31,061 / 3 = $10,354; $31,061 - $10,354 = $20,707.

[858] As discussed above, we estimate that one-third of the external costs currently attributed to rule 30e-2 relate to printing and mailing costs, which would not be applicable to UITs relying on proposed rule 30e-3. Accordingly, our estimate is based on the following calculation: $20,000 / 3 = $6,667; $20,000 - $6,667 = $13,333.

[859] This estimate is based on the following calculation: 11,230 funds x 90% = 10,107; 10,107 funds x $20,707 = $209,285,649. *See also* note 777 (estimating the number of management companies subject to rule 30e-1 as 11,230).

[860] This estimate is based on the following calculation: 11,230 funds – 10,107 funds = 1,123 funds; 1,123 funds x $31,061 = $34,881,503; $209,285,649 + $34,881,503 = $244,167,152.

[861] This estimate is based on the following calculation: 727 UITs x 90% = 654; 654 UITs x $13,333 = $8,719,782; *see also* note 789 (estimating the number of UITs subject to rule 30e-2 as 727).

[862] This estimate is based on the following calculation: 727 UITs – 654 UITs = 73 UITs; 73 UITs x $20,000 = $1,460,000; $8,719,782 + $1,460,000 = $10,179,782.

reports under the Investment Company Act and the Exchange Act. Form N-Q currently requires principal executive and financial officers of the fund to make certifications for the first and third fiscal quarters relating to (1) the accuracy of information reported to the Commission, and (2) disclosure controls and procedures and internal control over financial reporting.[863] Rescission of Form N-Q would eliminate these certifications.

Form N-CSR requires similar certification with respect to the fund's second and fourth fiscal quarters. As a result of the proposed rescission of Form N-Q, we are proposing to amend the form of certification in Form N-CSR to require each certifying officer to state that he or she has disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year, rather than the registrant's most recent fiscal quarter as currently required by the form.[864] Lengthening the look-back of this certification to six months, so that the certifications on Form N-CSR for the semi-annual and annual reports would cover the first and second fiscal quarters and third and fourth fiscal quarters, respectively, would fill the gap in certification coverage that would otherwise occur once Form N-Q is rescinded.

Compliance with the amended certification requirements would be mandatory and responses would not be kept confidential.

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[863] *See supra* note 178 and accompanying text.

[864] Proposed Item 11(b) of Form N–CSR; proposed paragraph 5(b) of certification exhibit of Item 11(a)(2) of Form N–CSR.

We currently estimate that the annual burden associated with Form N-CSR is 14.42 hours per fund[865] and that the current total annual time burden for Form N-CSR is 177,799 hours.[866] We note that the amount and content of the information contained in the reports filed on Form N-CSR would not change as the result of the proposed amendments and the funds likely already have policies and procedures in place to assist officers in their certifications of this information. Accordingly, we estimate that the proposed amendments to Form N-CSR would not change the annual hour burden associated with Form N-CSR and, thus, we continue to estimate the annual hour burden associated with Form N-CSR to be 14.42 hours per fund. With respect to the total annual hour burden, however, we estimate 161,937 hours.[867] This decrease in the current total annual hour burden is a result of the decrease in the number of funds estimated to file Form N-CSR.

In addition, we currently estimate that the annual cost of outside services associated with Form N-CSR is approximately $129 per fund.[868] External costs include the cost of goods and services purchased to prepare and update filings on Form N-CSR. We do not believe that these costs will change as a result of the proposed amendments to

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[865] This estimate accounts for two filings per year. In addition, we note that our current estimate does not separately account for the certifications on Form N-CSR.

[866] This estimate is based on the following calculation: 14.42 hours x 12,330 funds (the estimated number of funds the last time the rule's information collections were submitted for PRA renewal in 2013)).

[867] This estimate is based on the following calculation: 11,230 funds x 14.42 hours = 161,937. *See supra* note 777 (calculating the estimate for 11,230 funds).

[868] The external costs associated with Form N-CSR do not include the external costs associated with the shareholder report. The external costs associated with the shareholder report are accounted for under the collections of information related to rules 30e-1 and 30e-2 under the Investment Company Act.

Form N-CSR and, thus, continue to estimate an external cost burden of $129 per fund to file Form N-CSR. We further estimate that the total annual external cost burden for Form N-CSR would be $2,897,340.[869]

F. Amendments to Registration Statement Forms

We are also proposing to amend Forms N-1A, N-2, N-3, N-4, and N-6 to exempt funds from those forms' respective books and records disclosures if the information is provided in a fund's most recent report on Form N-CEN.[870] The books and records disclosures required by these registration statement forms are not provided in a structured format. We believe that having this information in a structured format would increase our efficiency in preparing for exams as well as our ability to identify current industry trends and practices and, therefore, are proposing it be reported on proposed Form N-CEN.

Currently, we estimate the following total hour burden for each of the relevant forms: (i) Form N-1A – 1,579,974 hours; (ii) Form N-2 – 86,533 hours; (iii) Form N-3 – 2,173 hours; (iv) Form N-4 – 256,835 hours; and (v) Form N-6 – 34,349 hours. We estimate the total hour burden, as discussed above, for each respective form will not change as result of the proposed amendments. Additionally, we do not believe the total cost burden for any of the relevant forms would change as a result of the proposed

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[869] This estimate is based on the following calculation: 11,230 funds x $129 = $1,448,670; $1,448,670 x 2 times per year = $2,897,340. The current total annual cost burden of Form N-CSR is $3,189,771, which reflects the higher estimated number of filers for Form N-CSR at the time of the last renewal for the form. *See supra* n.866.

[870] *See supra* notes 397-399 and accompanying text. As discussed in Part II.F. above, we are also proposing technical and conforming amendments to certain registration forms. We do not believe these changes will result in any change to the burden and cost estimates currently applicable to those forms.

amendments and, therefore, we continue to estimate the following total cost burden for each of the respective forms: (i) Form N-1A – $124,820,197; (ii) Form N-2 – $5,488,048; (iii) Form N-3 – $139,300; (iv) Form N-4 – $26,609,241; and (v) Form N-6 – $3,820,447.

G. Request for Comments

We request comment on whether our estimates for burden hours and any external costs as described above are reasonable. Pursuant to 44 U.S.C. 3506(c)(2)(B), the Commission solicits comments in order to: (i) evaluate whether the proposed collections of information are necessary for the proper performance of the functions of the Commission, including whether the information will have practical utility; (ii) evaluate the accuracy of the Commission's estimate of the burden of the proposed collections of information; (iii) determine whether there are ways to enhance the quality, utility, and clarity of the information to be collected; and (iv) determine whether there are ways to minimize the burden of the collections of information on those who are to respond, including through the use of automated collection techniques or other forms of information technology.

The agency has submitted the proposed collection of information to OMB for approval. Persons wishing to submit comments on the collection of information requirements of the proposed amendments should direct them to the Office of Management and Budget, Attention Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Washington, DC 20503, and should send a copy to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549 1090, with reference to File No. S7-08-15. OMB is required to make a decision concerning the collections of information between

30 and 60 days after publication of this release; therefore, a comment to OMB is best assured of having its full effect if OMB receives it within 30 days after publication of this release. Requests for materials submitted to OMB by the Commission with regard to these collections of information should be in writing, refer to File No. S7-08-15, and be submitted to the Securities and Exchange Commission, Office of FOIA Services, 100 F Street, NE., Washington, DC 20549-2736.

VI. INITIAL REGULATORY FLEXIBILITY ANALYSIS

This Initial Regulatory Flexibility Analysis ("IRFA") has been prepared in accordance with section 3 of the Regulatory Flexibility Act ("RFA").[871] It relates to proposed new Form N-PORT and amendments to the Form N-CSR certification requirement, amendments to Regulation S-X, the proposed rule governing electronic transmission of shareholder reports, the rescission of Forms N-Q and N-SAR, and proposed amendments to Forms N-1A, N-2, N-3, N-4, and N-6.

A. Reasons for and Objectives of the Proposed Actions

The Commission collects certain information about the funds that it regulates. The Commission is proposing new rules, rule amendments, and new forms and form amendments that would improve the quality of information that funds report to the Commission, benefitting the Commission's risk monitoring and oversight, examination, and enforcement programs.

We believe that our proposals would improve the information that funds report to their shareholders and the Commission. In addition, the proposed new forms would require reports be filed in a structured data format (XML) to allow for easier collection

[871] 5 U.S.C. 603.

and analysis of data by Commission staff and the public. This is the format used by Form N-MFP, Form 13F, and Form D, which greatly improves the ability of Commission staff and other potential users to aggregate and analyze the data reported.

The Commission's objective is to gain more timely and useful information about funds' operations and portfolio holdings. The Commission also believes that its risk monitoring and oversight, examination, and enforcement programs would be improved by requiring enhanced information from funds.

B. Legal Basis

The Commission is proposing the rules and forms contained in this document under the authority set forth in the Securities Act, particularly, section 19 thereof [15 U.S.C. *77a et seq*.], the Trust Indenture Act, particularly, section 319 thereof [15 U.S.C. 77aaa *et seq*.], the Exchange Act, particularly, sections 10, 13, 15, 23, and 35A thereof [15 U.S.C. 78a *et seq*.], the Investment Company Act, particularly, sections 8, 30, and 38 thereof [15 U.S.C. 80a *et seq*.], and 44 U.S.C. 3506, 3507.

C. Small Entities Subject to the Rule

An investment company is a small entity if, together with other investment companies in the same group of related investment companies, it has net assets of $50 million or less as of the end of its most recent fiscal year.[872] Commission staff estimates that, as of December 2014, approximately 146 registered investment companies, including 133 open and closed-end funds (including one SBIC) and 13 UITs. The Commission staff further estimates that, as of December 2014, approximately 28 BDCs are small entities.

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[872] 17 CFR 270.0-10(a).

D. Projected Reporting, Recordkeeping, and Other Compliance Requirements

The proposed amendments would create, amend, or eliminate current reporting requirements for small entities.

1. Form N-PORT

Funds currently report portfolio holdings information quarterly on Form N-Q (first and third fiscal quarters) and Form N-CSR (second and fourth fiscal quarters). The Commission is proposing to adopt new Form N-PORT on which funds, other than MMFs, UITs, and SBICs, would be required to report portfolio holdings information and information related to liquidity, derivatives, securities lending, purchases and redemptions, and counterparty exposure each month. Funds would be required to file Form N-PORT within 30 days after the end of the monthly period using a structured format. Only information reported for the third month of each quarter would be available to the public and such information would not be made public until 60 days after the end of the third month of the fund's fiscal quarter. For smaller funds and fund groups (*i.e.*, funds that together with other investment companies in the same "group of related investment companies" have net assets of less than $1 billion as of the end of the most recent fiscal year), which would include small entities, we expect to provide for an extra 12 months (or 30 months after the effective date) to comply with the new Form N-PORT reporting requirements.

Based on our experience with other interactive data filings, we estimate that funds would prepare and file their reports on proposed Form N-PORT by either (1) licensing a software solution and preparing and filing the reports in house, or (2) retaining a service provider to provide data aggregation and validation services as part of the preparation and

filing of reports on proposed Form N-PORT on behalf of the fund. We estimate that approximately 132 open and closed-end funds (other than money market funds and SBICs), are small entities that would be required to file, on a monthly basis, a complete report on proposed Form N-PORT reporting certain information regarding the fund and its portfolio holdings. As discussed above, we estimate, for funds that choose to license a software solution to file reports on Form N-PORT, that completing, reviewing, and filing Form N-PORT would cost $55,970 for each fund, including small entities, in its first year of reporting and $46,745 per year for each subsequent year.[873] We further estimate, for funds that choose to retain a third-party service provider to provide data aggregation and validation services as part of the preparation and filing of reports on Form N-PORT, that completing, reviewing, and filing Form N-PORT would cost $54,821 for each fund, including small entities, in its first year of reporting, and $38,746 per year for each subsequent year.[874]

2. Rescission of Form N-Q

Our proposal would rescind Form N-Q in order to eliminate unnecessarily duplicative reporting requirements. The proposed rescission of Form N-Q would affect all management investment companies required to file reports on the form. We expect that approximately 132 open and closed-end funds are small entities that would be affected by the recession of Form N-Q.

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[873] *See supra* notes 658-659 and accompanying text.

[874] *See supra* notes 660-661 and accompanying text.

As discussed above, we estimate that the rescission of Form N-Q would save $6,762 per year for each fund, including small entities.[875]

3. Form N-CEN

Funds currently report census type information relating to the fund's organization, service providers, fees and expenses, portfolio strategies and investments, portfolio transactions, and share transactions on Form N-SAR. Funds file this form semi-annually with the Commission, except for UITs, which must file such reports annually.[876] The utility of the information reported on Form N-SAR has been limited for two reasons. First, the data items funds are required to report on Form N-SAR have not been updated to reflect current Commission staff needs. Second, the technology by which funds file reports on Form N-SAR has not been updated and limits the Commission staff's ability to extract and analyze reported data.

Because of these limitations, the Commission is proposing to replace Form N-SAR with new Form N-CEN. This new form would streamline and updated the required data items to reflect current Commission staff needs. The Commission is also proposing that funds file reports on Form N-CEN in a structured (XML) format, which would allow for easier data analysis and use in the Commission's rulemaking, inspection, and risk monitoring functions and reduce burdens on filers. Finally, the Commission is proposing that funds file reports on Form N-CEN annually, opposed to semi-annually,

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[875] The estimated cost is based upon the following calculations: ($6,762= 21 hours/fund x $322/hour compensation for professionals commonly used in preparation of Form N-Q filings.) *See supra* Part V.A.2.

[876] *See* rule 30b1-1 and rule 30a-1.

which is currently required for Form N-SAR (except UITs, which currently must file reports annually).

We estimate that that approximately 146 registered investment companies, including 133 open and closed-end funds (including one SBIC) and 13 UITs, are small entities that would be required to file a complete report on Form N-CEN. Although UITs are required to complete fewer items on Form N-CEN than other registered investment companies, the burden on UITs would increase because UITs would be required to respond to more items in Form N-CEN than they are currently required to respond to under Form N-SAR.

As discussed above, the SEC estimates that completing, reviewing, and filing Form N-CEN would cost $10,622 for each fund,[877] including small entities, in its first year of reporting, and $4,252 per year for each subsequent year.[878] We further estimate that completing, reviewing, and filing Form N-CEN would cost $9,272 for each UIT,[879] including small entities, in its first year of reporting, and $2,902 per year for each subsequent year.[880]

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[877] *See supra* notes 723 and 725 and accompanying text. The estimated costs is based upon the following calculations: ($10,622 = (13.35 hours/fund ongoing costs + 20 hours/fund initial costs) x $318.50/hour compensation for professionals commonly used in preparation of Form N-CEN filings)

[878] *See supra* note 724 and accompanying text. The estimated costs is based upon the following calculations: ($4,252 = 13.35 hours/fund ongoing costs x $318.50/hour compensation for professionals commonly used in preparation of Form N-CEN filings)

[879] *See supra* notes 723 and 725 and accompanying text. The estimated costs is based upon the following calculations: ($9,272 = (9.11 hours/UIT ongoing costs + 20 hours/UIT initial costs) x $318.50/hour compensation for professionals commonly used in preparation of Form N-CEN filings)

[880] *See supra* note 724 and accompanying text. The estimated costs is based upon the following calculations: ($2,902 = 9.11 hours/UIT ongoing costs x $318.50/hour compensation for professionals commonly used in preparation of Form N-CEN filings)

4. Rescission of Form N-SAR

Our proposal would rescind Form N-SAR in order to eliminate unnecessarily duplicative reporting requirements. We estimate that that approximately 146 registered investment companies that are small entities, including 133 open and closed-end funds (including one SBIC) and 13 UITs would be affected by the rescission of Form N-SAR.

We estimate that rescinding Form N-SAR would save $9,778 per year for each fund, including small entities.[881] We further estimate that rescinding Form N-SAR would save $2,265 per year for each UIT, including small entities.[882]

5. Regulation S-X Amendments

The Commission is also proposing to amend Regulation S-X to require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased options, update the disclosures for other investments with conforming amendments, and amend the rules regarding the form and content of fund financial statements. We believe that the amendments we are proposing today are generally consistent with how many funds are currently reporting investments (including derivatives), and other information according to current industry practices. The Commission believes investors would benefit from our proposed amendments

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[881] The estimated savings is based upon the following calculations: ($9,778= 15.35 hours/fund x $318.50/hour compensation for professionals commonly used in preparation of Form N-SAR filings x 2 filings/year.) *See supra* notes 724-725 and accompanying text (using a weighted average annual hour burden per response for Form N-SAR of 14.25 hours).

[882] The estimated savings is based upon the following calculations: ($2,265= 7.11 hours/UIT x $318.50/hour compensation for professionals commonly used in preparation of Form N-SAR filings.) *See supra* notes 724-725 and accompanying text (using a weighted average annual hour burden per response for Form N-SAR of 14.25 hours).

because increased disclosure and standardization of fund holdings would improve comparability among funds including transparency for investors regarding a fund's use of derivatives and the liquidity of certain investments. The Commission also believes that greater clarity would benefit the industry, while any additional burdens would be reduced since similar disclosures would be proposed to be required on Form N-PORT.

We expect that approximately 146 registered investment companies, including 133 open and closed-end funds (including one SBIC) and 13 UITs and, approximately 28 BDCs, are small entities that would be affected by the amendments to Regulation S-X. As discussed above, we estimate that amending Regulation S-X would cost $2,417 for each fund, including small entities, in its first year of reporting, and $806 per year for each subsequent year.[883] As discussed above, we further estimate that amending Regulation S-X would cost $2,417 for each UIT, including small entities, in its first year of reporting, and $806 per year for each subsequent year.[884]

6. Website Transmission of Shareholder Reports

The Commission is proposing new rule 30e-3 under the Investment Company Act, which would, if adopted, permit, but not require, a fund to satisfy requirements under the Act and rules thereunder to transmit reports to shareholders if the fund makes the reports and certain other materials accessible on its website and periodically notifies investors of the materials' availability.[885] Proposed rule 30e-3 would provide that a fund's annual or semiannual report to shareholders would be considered "transmitted" to

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[883] *See supra* notes 694-699 and accompanying text.

[884] *See supra* notes 698-701 and accompanying text.

[885] *See supra* Part II.D.

a shareholder of record if certain conditions set forth in the rule are satisfied.[886] Funds that do not maintain websites or that otherwise wish to transmit shareholder reports in paper or pursuant the Commission's existing electronic delivery guidance would continue to be able to satisfy their transmission requirements by those transmission methods.

We expect that approximately 146 registered investment companies, including 133 open and closed-end funds (including one SBIC) and 13 UITs, are small entities that would rely on the website reporting rules. As discussed above, the SEC estimates that our proposed website reporting would save $4,792 for each fund, including small entities, in its first year of reporting, and $6,122 per year for each subsequent year.[887]

7. Amendments to Form N-CSR

Form N-Q and Form N-CSR currently require a quarterly SOX certification relating to the accuracy of information reported to the Commission and disclosure controls and procedures and internal control over financial reporting. To facilitate the elimination of Form N-Q, we are proposing to expand the SOX certification for Form N-CSR to six months to maintain coverage for the entire fiscal year. We expect that approximately 146 registered investment companies, including 133 open and closed-end funds (including one SBIC) and 13 UITs, are small entities that would be affected by the amendments to Form N-CSR. As discussed above, the, the Commission does not believe that the costs associated with reporting on Form N-CSR for will change for funds, including small entities, as a result of the proposed amendments to Form N-CSR.[888]

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[886] Proposed rule 30e-3(a).

[887] *See supra* notes 715, 717, and 718 and accompanying text.

[888] *See supra* Part V.E.

8. Amendments to Registration Statement Forms

We are also proposing to amend Forms N-1A, N-2, N-3, N-4, and N-6 to exempt funds from those forms' respective books and records disclosures if the information is provided in a fund's most recent report on Form N-CEN.[889] The books and records disclosures required by these registration statement forms are not provided in a structured format. We believe that having this information in a structured format would increase our efficiency in preparing for exams as well as our ability to identify current industry trends and practices and, therefore, are proposing it be reported on proposed Form N-CEN. We are also proposing amendments that would restrict funds that would rely on proposed rule 30e-3 from providing a Summary Schedule in their shareholder reports in lieu of a complete schedule, and certain technical and conforming amendments to Forms N-1A, N-2 and N-3 to refer to the availability of portfolio holdings schedules attached to reports on Form N-PORT and posted on fund websites rather than on reports on Form N-Q.

We expect that approximately 146 registered investment companies, including 133 open and closed-end funds (including one SBIC) and 13 UITs, and approximately 28 BDCs, are small entities that would be required to file registration statements. As discussed above, the SEC estimates that our proposed amendments would not change for funds, including small entities, as a result of our proposed amendments to Forms N-1A, N-2, N-3, N-4, and N-6.[890]

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[889] *See supra* notes 397-399 and accompanying text.

[890] *See supra* Part V.F.

E. Duplicative, Overlapping, or Conflicting Federal Rules

Funds currently report portfolio holdings information for the first and third fiscal quarters on Form N-Q and for the second and fourth fiscal quarters on Form N-CSR. As a result of our proposal to create new Form N-PORT, on which funds will report portfolio holdings information monthly, the Commission is proposing to eliminate Form N-Q, which will reduce duplication of portfolio holdings information for the first and third fiscal quarters. We acknowledge that Form N-CSR, Form N-PORT, Regulation S-X, and web reporting would require reporting of some duplicative information, including information currently reported on the fund's registration statements and annual reports. However, we believe that both the nature and structure of the reporting are sufficiently different to justify overlapping information requirements on the fund's website or on respective Commission forms.[891]

Funds currently report census information on Form N-SAR. As part of our proposed amendments, the Commission is proposing to replace Form N-SAR with new Form N-CEN. In addition, we are proposing that reports on Form N-CEN be filed annually, as opposed to semi-annually, which is generally required for Form N-SAR. Again, we acknowledge that Form N-CEN would require reporting of some duplicative information, including information currently reported on the fund's registration statements and annual reports. Like Form N-PORT and Form N-CSR, we believe that both the nature and structure of the reporting are sufficiently different to justify overlapping information requirements.

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[891] For example, the purpose of Form N-PORT is to provide structured portfolio holdings data for Commission staff and other to analyze, while the purpose of web reporting is to provide shareholders with investor-friendly portfolio disclosures on a quarterly basis.

Finally, in order to reduce duplicative information in Form N-CEN and fund registration statements, we are proposing to amend Forms N-1A, N-2, N-3, N-4, and N-6 to exempt funds from those forms' respective books and records disclosures if the information is provided in a fund's most recent report on Form N-CEN.

F. Significant Alternatives

The RFA directs the Commission to consider significant alternatives that would accomplish our stated objective, while minimizing any significant economic impact on small entities. The Commission considered the following alternatives for small entities in relation our proposed amendments: (i) establishing different reporting requirements or frequency to account for resources available to small entities; (ii) using performance rather than design standards; and (iii) exempting small entities from all or part of the proposal.

Small entities currently follow the same requirements that large entities do when filing reports on Form N-SAR, Form N-CSR, and Form N-Q. The Commission believes that establishing different reporting requirements or frequency for small entities would not be consistent with the Commission's goal of industry oversight and investor protection. However, as discussed above, we are proposing a delayed compliance period for small entities that would file reports on Form N-PORT.

G. General Request for Comment

The Commission requests comments regarding this IRFA. We request comments on the number of small entities that may be affected by our proposed rules and guidelines, and whether the proposed rules and guidelines would have any effects not considered in this analysis. We request that commenters describe the nature of any effects on small entities subject to the rules, and provide empirical data to support the

nature and extent of such effects. We also request comment on the proposed compliance burdens and the effect these burdens would have on smaller entities.

VII. CONSIDERATION OF IMPACT ON THE ECONOMY

For purposes of the Small Business Regulatory Enforcement Fairness Act of 1996 ("SBREFA"),[892] the Commission must advise OMB whether a proposed regulation constitutes a "major" rule. Under SBREFA, a rule is considered "major" where, if adopted, it results in or is likely to result in:

- An annual effect on the economy of $100 million or more;
- A major increase in costs or prices for consumers or individual industries; or
- Significant adverse effects on competition, investment, or innovation.

We request comment on whether our proposal would be a "major rule" for purposes of SBREFA. We solicit comment and empirical data on:

- The potential effect on the U.S. economy on an annual basis;
- Any potential increase in costs or prices for consumers or individual industries; and
- Any potential effect on competition, investment, or innovation.

Commenters are requested to provide empirical data and other factual support for their views to the extent possible.

VIII. STATUTORY AUTHORITY AND TEXT OF PROPOSED AMENDMENTS

We are proposing the rules and forms contained in this document under the authority set forth in the Securities Act, particularly, section 19 thereof [15 U.S.C. *77a et*

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[892] Public Law 104-121, Title II, 110 Stat. 857 (1996) (codified in various sections of 5 U.S.C., 15 U.S.C., and as a note to 5 U.S.C. 601).

seq.], the Trust Indenture Act, particularly, section 319 thereof [15 U.S.C. 77aaa *et seq*.], the Exchange Act, particularly, sections 10, 13, 15, 23, and 35A thereof [15 U.S.C. 78a *et seq*.], the Investment Company Act, particularly, sections 8, 30, and 38 thereof [15 U.S.C. 80a *et seq*.], and 44 U.S.C. 3506, 3507.

List of Subjects

17 CFR Part 200

Administrative practice and procedure, Organization and functions (Government agencies).

17 CFR Part 210

Accounting, Investment companies, Reporting and recordkeeping requirements, Securities.

17 CFR Parts 230 and 239

Investment companies, Reporting and recordkeeping requirements, Securities.

17 CFR Part 232

Administrative practice and procedure, Reporting and recordkeeping requirements, Securities.

17 CFR Parts 240 and 249

Reporting and recordkeeping requirements, Securities.

17 CFR Parts 270 and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

For reasons set forth in the preamble, Title 17, Chapter II of the Code of Federal Regulations is proposed to be amended as follows:

PART 200 — ORGANIZATION; CONDUCT AND ETHICS; AND INFORMATION AND REQUESTS

Subpart N — Commission Information Collection Requirements Under the Paperwork Reduction Act: OMB Control Numbers

1. The authority citation for Part 200 Subpart N continues to read as follows:

Authority: 44 U.S.C. 3506; 44 U.S.C. 3507.

2. Section 200.800 is amended in paragraph (b) by removing the entry for "Form N-SAR" and adding in its place an entry "Form N-CEN" and adding an entry in numerical order by part and section number for "Form N-PORT", to read as follows:

§200.800 OMB control numbers assigned pursuant to the Paperwork Reduction Act.

* * * * *

(b) * * *

Information collection requirement	17 CFR part or section where identified and described	Current OMB control No.
	* * * * * * *	
Form N-CEN	274.101	[OMB control number TBD]
	* * * * * * *	
Form N-PORT	274.150	[OMB control number TBD]
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PART 210 — FORM AND CONTENT OF AND REQUIREMENTS FOR FINANCIAL STATEMENTS, SECURITIES ACT OF 1933, SECURITIES EXCHANGE ACT OF 1934, INVESTMENT COMPANY ACT OF 1940, INVESTMENT ADVISERS ACT OF 1940, AND ENERGY POLICY AND CONSERVATION ACT OF 1975

3. The authority citation for part 210 continues to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77z-2, 77z-3, 77aa(25), 77aa(26), 77nn(25), 77nn(26), 78c, 78j-1, 78*l*, 78m, 78n, 78o(d), 78q, 78u-5, 78w, 78*ll*, 78mm, 80a-8, 80a-20, 80a-29, 80a-30, 80a-31, 80a-37(a), 80b-3, 80b-11, 7202 and 7262, unless otherwise noted.

4. Revise §210.6-01 and the undesignated heading preceding it to read as follows:

REGISTERED INVESTMENT COMPANIES AND BUSINESS DEVELOPMENT COMPANIES

§210.6-01 Application of §§210.6-01 to 210.6-10.

Sections 210.6-01 to 210.6-10 shall be applicable to financial statements filed for registered investment companies and business development companies.

5. Revise §210.6-03 to read as follows:

§210.6-03 Special rules of general application to registered investment companies and business development companies.

The financial statements filed for persons to which §§210.6-01 to 210.6-10 are applicable shall be prepared in accordance with the following special rules in addition to the general rules in §§210.1-01 to 210.4-10 (Articles 1, 2, 3, and 4). Where the requirements of a special rule differ from those prescribed in a general rule, the requirements of the special rule shall be met.

(a) *Content of financial statements.* The financial statements shall be prepared in accordance with the requirements of this part (Regulation S-X) notwithstanding any provision of the articles of incorporation, trust indenture or other governing legal instruments specifying certain accounting procedures inconsistent with those required in §§210.6-01 to 210.6-10.

(b) *Audited financial statements.* Where, under Article 3 of this part, financial statements are required to be audited, the independent accountant shall have been selected and ratified in accordance with section 32 of the Investment Company Act of 1940 (15 U.S.C. 80a-31).

(c) *Consolidated and combined statements.* (1) Consolidated and combined statements filed for registered investment companies and business development companies shall be prepared in accordance with §§210.3A-01 to 210.3A-04 (Article 3A) except that:

(i) Statements of the registrant may be consolidated only with the statements of subsidiaries which are investment companies;

(ii) A consolidated statement of the registrant and any of its investment company subsidiaries shall not be filed unless accompanied by a consolidating statement which sets forth the individual statements of each significant subsidiary included in the consolidated statement: *Provided, however,* That a consolidating statement need not be filed if all included subsidiaries are totally held; and

(iii) Consolidated or combined statements filed for subsidiaries not consolidated with the registrant shall not include any investment companies unless accompanied by

consolidating or combining statements which set forth the individual statements of each included investment company which is a significant subsidiary.

(2) If consolidating or combining statements are filed, the amounts included under each caption in which financial data pertaining to affiliates is required to be furnished shall be subdivided to show separately the amounts:

(i) Eliminated in consolidation; and

(ii) Not eliminated in consolidation.

(d) *Valuation of investments.* The balance sheets of registered investment companies and business development companies, other than issuers of face-amount certificates, shall reflect all investments at value, with the aggregate cost of each category of investment reported under §§210.6-04.1, 6-04.2, 6-04.3 and 6-04.9 or the aggregate cost of each category of investment reported under §210.6-05.1 shown parenthetically. State in a note the methods used in determining value of investments. As required by section 28(b) of the Investment Company Act of 1940 (15 U.S.C. 80a-28(b)), *qualified* assets of face-amount certificate companies shall be valued in accordance with certain provisions of the Code of the District of Columbia. For guidance as to valuation of securities, see §§404.03 to 404.05 of the Codification of Financial Reporting Policies.

(e) *Qualified assets.* State in a note the nature of any investments and other assets maintained or required to be maintained, by applicable legal instruments, in respect of outstanding face-amount certificates. If the nature of the qualifying assets and amount thereof are not subject to the provisions of section 28 of the Investment Company Act of 1940 (15 U.S.C. 80a-28), a statement to that effect shall be made.

(f) *Restricted securities.* State in a note unless disclosed elsewhere the following information as to investment securities which cannot be offered for public sale without first being registered under the Securities Act of 1933 (restricted securities):

(1) The policy of the person with regard to acquisition of restricted securities.

(2) The policy of the person with regard to valuation of restricted securities. Specific comments shall be given as to the valuation of an investment in one or more issues of securities of a company or group of affiliated companies if any part of such investment is restricted and the aggregate value of the investment in all issues of such company or affiliated group exceeds five percent of the value of total assets. (As used in this paragraph, the term *affiliated* shall have the meaning given in §210.6-02(a).)

(3) A description of the person's rights with regard to demanding registration of any restricted securities held at the date of the latest balance sheet.

(g) *Income recognition.* Dividends shall be included in income on the ex-dividend date; interest shall be accrued on a daily basis. Dividends declared on short positions existing on the record date shall be recorded on the ex-dividend date and included as an expense of the period.

(h) *Federal income taxes.* The company's status as a *regulated investment company* as defined in subtitle A, chapter 1, subchapter M of the Internal Revenue Code, as amended, shall be stated in a note referred to in the appropriate statements. Such note shall also indicate briefly the principal assumptions on which the company relied in making or not making provisions for income taxes. However, a company which retains realized capital gains and designates such gains as a distribution to shareholders in accordance with section 852(b)(3)(D) of the Internal Revenue Code shall, on the last day

of its taxable year (and not earlier), make provision for taxes on such undistributed capital gains realized during such year.

(i) *Issuance and repurchase by a registered investment company or business development company of its own securities.* Disclose for each class of the company's securities:

(1) The number of shares, units, or principal amount of bonds sold during the period of report, the amount received therefor, and, in the case of shares sold by closed-end management investment companies, the difference, if any, between the amount received and the net asset value or preference in involuntary liquidation (whichever is appropriate) of securities of the same class prior to such sale; and

(2) The number of shares, units, or principal amount of bonds repurchased during the period of report and the cost thereof. Closed-end management investment companies shall furnish the following additional information as to securities repurchased during the period of report:

(i) As to bonds and preferred shares, the aggregate difference between cost and the face amount or preference in involuntary liquidation and, if applicable net assets taken at value as of the date of repurchase were less than such face amount or preference, the aggregate difference between cost and such net asset value;

(ii) As to common shares, the weighted average discount per share, expressed as a percentage, between cost of repurchase and the net asset value applicable to such shares at the date of repurchases.

Note to paragraphs (h)(2)(i) and (ii): The information required by paragraphs (h)(2)(i) and (ii) of this section may be based on reasonable estimates if it is impracticable to determine the exact amounts involved.

(j) *Series companies.* (1) The information required by this part shall, in the case of a person which in essence is comprised of more than one separate investment company, be given as if each class or series of such investment company were a separate investment company; this shall not prevent the inclusion, at the option of such person, of information applicable to other classes or series of such person on a comparative basis, except as to footnotes which need not be comparative.

(2) If the particular class or series for which information is provided may be affected by other classes or series of such investment company, such as by the offset of realized gains in one series with realized losses in another, or through contingent liabilities, such situation shall be disclosed.

(k) *Certificate reserves.* (1) For companies issuing face-amount certificates subsequent to December 31, 1940 under the provisions of section 28 of the Investment Company Act of 1940 (15 U.S.C. 80a-28), balance sheets shall reflect reserves for outstanding certificates computed in accordance with the provisions of section 28(a) of the Act.

(2) For other companies, balance sheets shall reflect reserves for outstanding certificates determined as follows:

(i) For certificates of the installment type, such amount which, together with the lesser of future payments by certificate holders as and when accumulated at a rate not to exceed 3½ per centum per annum (or such other rate as may be appropriate under the

circumstances of a particular case) compounded annually, shall provide the minimum maturity or face amount of the certificate when due.

(ii) For certificates of the fully-paid type, such amount which, as and when accumulated at a rate not to exceed $3\frac{1}{2}$ per centum per annum (or such other rate as may be appropriate under the circumstances of a particular case) compounded annually, shall provide the amount or amounts payable when due.

(iii) Such amount or accrual therefor, as shall have been credited to the account of any certificate holder in the form of any credit, or any dividend, or any interest in addition to the minimum maturity or face amount specified in the certificate, plus any accumulations on any amount so credited or accrued at rates required under the terms of the certificate.

(iv) An amount equal to all advance payments made by certificate holders, plus any accumulations thereon at rates required under the terms of the certificate.

(v) Amounts for other appropriate contingency reserves, for death and disability benefits or for reinstatement rights on any certificate providing for such benefits or rights.

(l) *Inapplicable captions.* Attention is directed to the provisions of §§210.4-02 and 210.4-03 which permit the omission of separate captions in financial statements as to which the items and conditions are not present, or the amounts involved not significant. However, amounts involving directors, officers, and affiliates shall nevertheless be separately set forth except as otherwise specifically permitted under a particular caption.

(m) *Securities Lending.* State in a note unless disclosed elsewhere the following information regarding securities lending activities and cash collateral management:

(1) The gross income from securities lending activities, including income from cash collateral reinvestment;

(2) The dollar amount of all fees and/or compensation paid by the registrant for securities lending activities and related services, including borrower rebates and cash collateral management services;

(3) The net income from securities lending activities;

(4) The terms governing the compensation of the securities lending agent, including any revenue sharing split, with the related percentage split between the registrant and the securities lending agent, and/or any fee-for-service, and a description of services included;

(5) The details of any other fees paid directly or indirectly, including any fees paid directly by the registrant for cash collateral management and any management fee deducted from a pooled investment vehicle in which cash collateral is invested; and

(6) The monthly average of the value of portfolio securities on loan.

6. Revise §210.6-04 to read as follows:

§210.6-04 Balance sheets.

This section is applicable to balance sheets filed by registered investment companies and business development companies except for persons who substitute a statement of net assets in accordance with the requirements specified in §210.6-05, and issuers of face-amount certificates which are subject to the special provisions of §210.6-06. Balance sheets filed under this rule shall comply with the following provisions:

ASSETS

1. *Investments in securities of unaffiliated issuers.*

2. *Investments in and advances to affiliates.* State separately investments in and advances to: (a) Controlled companies and (b) other affiliates.

3. *Other investments.* State separately amounts of assets related to (a) variation margin receivable on futures contracts, (b) forward foreign currency contracts; (c) swap contracts; and (d) investments—other than those presented in §§210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B, and 12-13C.

4. *Cash.* Include under this caption cash on hand and demand deposits. Provide in a note to the financial statements the information required under §210.5-02.1 regarding restrictions and compensating balances.

5. *Receivables.* (a) State separately amounts receivable from (1) sales of investments; (2) subscriptions to capital shares; (3) dividends and interest; (4) directors and officers; and (5) others.

(b) If the aggregate amount of notes receivable exceeds 10 percent of the aggregate amount of receivables, the above information shall be set forth separately, in the balance sheet or in a note thereto, for accounts receivable and notes receivable.

6. *Deposits for securities sold short and other investments.* State separately amounts held by others in connection with: (a) Short sales; (b) open option contracts (c) futures contracts, (d) forward foreign currency contracts; (e) swap contracts; and (f) investments—other than those presented in §§210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B, and 12-13C.

7. *Other assets.* State separately (a) prepaid and deferred expenses; (b) pension and other special funds; (c) organization expenses; and (d) any other significant item not properly classified in another asset caption.

8. *Total assets.*

LIABILITIES

9. *Other investments.* State separately amounts of liabilities related to: (a) Securities sold short; (b) open option contracts written; (c) variation margin payable on futures contracts, (d) forward foreign currency contracts; (e) swap contracts; and (f) investments—other than those presented in §§210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B, and 12-13C.

10. *Accounts payable and accrued liabilities.* State separately amounts payable for: (a) other purchases of securities; (b) capital shares redeemed; (c) dividends or other distributions on capital shares; and (d) others. State separately the amount of any other liabilities which are material.

11. *Deposits for securities loaned.* State the value of securities loaned and indicate the nature of the collateral received as security for the loan, including the amount of any cash received.

12. *Other liabilities.* State separately (a) amounts payable for investment advisory, management and service fees; and (b) the total amount payable to: (1) Officers and directors; (2) controlled companies; and (3) other affiliates, excluding any amounts owing to noncontrolled affiliates which arose in the ordinary course of business and which are subject to usual trade terms.

13. *Notes payable, bonds and similar debt.* (a) State separately amounts payable to: (1) Banks or other financial institutions for borrowings; (2) controlled companies; (3) other affiliates; and (4) others, showing for each category amounts payable within one year and amounts payable after one year.

(b) Provide in a note the information required under §210.5-02.19(b) regarding unused lines of credit for short-term financing and §210.5-02.22(b) regarding unused commitments for long-term financing arrangements.

14. *Total liabilities.*

15. *Commitments and contingent liabilities.*

NET ASSETS

16. *Units of capital.* (a) Disclose the title of each class of capital shares or other capital units, the number authorized, the number outstanding, and the dollar amount thereof.

(b) Unit investment trusts, including those which are issuers of periodic payment plan certificates, also shall state in a note to the financial statements: (1) The total cost to the investors of each class of units or shares; (2) the adjustment for market depreciation or appreciation; (3) other deductions from the total cost to the investors for fees, loads and other charges, including an explanation of such deductions; and (4) the net amount applicable to the investors.

17. *Accumulated undistributed income (loss).* Disclose:

(a) The accumulated undistributed investment income-net,

(b) accumulated undistributed net realized gains (losses) on investment transactions, and (c) net unrealized appreciation (depreciation) in value of investments at the balance sheet date.

18. *Other elements of capital.* Disclose any other elements of capital or residual interests appropriate to the capital structure of the reporting entity.

19. *Net assets applicable to outstanding units of capital.* State the net asset value per share.

7. Revise §210.6-05 to read as follows:

§210.6-05 Statements of net assets.

In lieu of the balance sheet otherwise required by §210.6-04, persons may substitute a statement of net assets if at least 95 percent of the amount of the person's total assets are represented by investments in securities of unaffiliated issuers. If presented in such instances, a statement of net assets shall consist of the following:

STATEMENTS OF NET ASSETS

1. A schedule of investments in securities of unaffiliated issuers as prescribed in §210.12-12.

2. The excess (or deficiency) of other assets over (under) total liabilities stated in one amount, except that any amounts due from or to officers, directors, controlled persons, or other affiliates, excluding any amounts owing to noncontrolled affiliates which arose in the ordinary course of business and which are subject to usual trade terms, shall be stated separately.

3. Disclosure shall be provided in the notes to the financial statements for any item required under §210.6-04.3 and §§210.6-04.9 to 210.6-04.13.

4. The balance of the amounts captioned as *net assets.* The number of outstanding shares and net asset value per share shall be shown parenthetically.

5. The information required by (i) §210.6-04.16, (ii) §210.6-04.17 and (iii) §210.6-04.18 shall be furnished in a note to the financial statements.

8. Revise §210.6-07 to read as follows:

§210.6-07 Statements of operations.

Statements of operations filed by registered investment companies and business development companies, other than issuers of face-amount certificates subject to the special provisions of §210.6-08, shall comply with the following provisions:

STATEMENTS OF OPERATIONS

1. *Investment income.* State separately income from: (a) cash dividends; (b) non-cash dividends; (c) interest on securities excluding payment in kind interest; (d) payment in kind interest on securities; and (e) other income. If income from investments in or indebtedness of affiliates is included hereunder, such income shall be segregated under an appropriate caption subdivided to show separately income from: (1) Controlled companies; and (2) other affiliates. If non-cash dividends or payment in kind interest are included in income, the bases of recognition and measurement used in respect to such amounts shall be disclosed. Any other category of income which exceeds five percent of the total shown under this caption shall be stated separately.

2. *Expenses.* (a) State separately the total amount of investment advisory, management and service fees, and expenses in connection with research, selection, supervision, and custody of investments. Amounts of expenses incurred from transactions with affiliated persons shall be disclosed together with the identity of and related amount applicable to each such person accounting for five percent or more of the total expenses shown under this caption together with a description of the nature of the affiliation. Expenses incurred within the person's own organization in connection with research, selection and supervision of investments shall be stated separately. Reductions or

reimbursements of management or service fees shall be shown as a negative amount or as a reduction of total expenses shown under this caption.

(b) State separately any other expense item the amount of which exceeds five percent of the total expenses shown under this caption.

(c) A note to the financial statements shall include information concerning management and service fees, the rate of fee, and the base and method of computation. State separately the amount and a description of any fee reductions or reimbursements representing: (1) Expense limitation agreements or commitments; and (2) offsets received from broker-dealers showing separately for each amount received or due from (i) unaffiliated persons; and (ii) affiliated persons. If no management or service fees were incurred for a period, state the reason therefor.

(d) If any expenses were paid otherwise than in cash, state the details in a note.

(e) State in a note to the financial statements the amount of brokerage commissions (including dealer markups) paid to affiliated broker-dealers in connection with purchase and sale of investment securities. Open-end management companies shall state in a note the net amounts of sales charges deducted from the proceeds of sale of capital shares which were retained by any affiliated principal underwriter or other affiliated broker-dealer.

(f) State separately all amounts paid in accordance with a plan adopted under 17 CFR 270.12b-1 of this chapter. Reimbursement to the fund of expenses incurred under such plan (12b-1 expense reimbursement) shall be shown as a negative amount and deducted from current 12b-1 expenses. If 12b-1 expense reimbursements exceed current

12b-1 costs, such excess shall be shown as a negative amount used in the calculation of total expenses under this caption.

(g)(1) *Brokerage/Service Arrangements.* If a broker-dealer or an affiliate of the broker-dealer has, in connection with directing the person's brokerage transactions to the broker-dealer, provided, agreed to provide, paid for, or agreed to pay for, in whole or in part, services provided to the person (other than brokerage and research services as those terms are used in section 28(e) of the Securities Exchange Act of 1934 [15 U.S.C. 78bb(e)]), include in the expense items set forth under this caption the amount that would have been incurred by the person for the services had it paid for the services directly in an arms-length transaction.

(2) *Expense Offset Arrangements.* If the person has entered into an agreement with any other person pursuant to which such other person reduces, or pays a third party which reduces, by a specified or reasonably ascertainable amount, its fees for services provided to the person in exchange for use of the person's assets, include in the expense items set forth under this caption the amount of fees that would have been incurred by the person if the person had not entered into the agreement.

(3) *Financial Statement Presentation.* Show the total amount by which expenses are increased pursuant to paragraphs (1) and (2) of this paragraph (2)(g) as a corresponding reduction in total expenses under this caption. In a note to the financial statements, state separately the total amounts by which expenses are increased pursuant to paragraphs (1) and (2) of this paragraph (2)(g), and list each category of expense that is increased by an amount equal to at least 5 percent of total expenses. If applicable, the note should state that the person could have employed the assets used by another person

to produce income if it had not entered into an arrangement described in paragraph (2)(g)(2) of this section.

3. *Interest and amortization of debt discount and expense.* Provide in the body of the statements or in the footnotes, the average dollar amount of borrowings and the average interest rate.

4. *Investment income before income tax expense.*

5. *Income tax expense.* Include under this caption only taxes based on income.

6. *Investment income-net.*

7. *Realized and unrealized gain (loss) on investments-net.* (a) State separately the net realized gain or loss from: (1) Transactions in investment securities of unaffiliated issuers, (2) transactions in investment securities of affiliated issuers, (3) expiration or closing of option contracts written, (4) closed short positions in securities, (5) expiration or closing of futures contracts, (6) settlement of forward foreign currency contracts, (7) expiration or closing of swap contracts, and (8) transactions in other investments held during the period.

(b) Distributions of realized gains by other investment companies shall be shown separately under this caption.

(c) State separately the amount of the net increase or decrease during the period in the unrealized appreciation or depreciation in the value of: (1) investment securities of unaffiliated issuers, (2) investment securities of affiliated issuers, (3) option contracts written, (4) short positions in securities, (5) futures contracts, (6) forward foreign currency contracts, (7) swap contracts, and (8) other investments held at the end of the period.

(d) State separately any: (1) Federal income taxes and (2) other income taxes applicable to realized and unrealized gain (loss) on investments, distinguishing taxes payable currently from deferred income taxes.

8. *Net gain (loss) on investments.*

9. *Net increase (decrease) in net assets resulting from operations.*

9. Revise §210.6-10 to read as follows:

§210.6-10 What schedules are to be filed.

(a) The schedules shall be examined by an independent accountant if the related financial statements are so examined.

(b) *Management investment companies.* (1) Except as otherwise provided in the applicable form, the schedules specified in this paragraph shall be filed for management investment companies as of the dates of the most recent audited balance sheet and any subsequent unaudited statement being filed for each person or group.

Schedule I—Investments in securities of unaffiliated issuers. The schedule prescribed by §210.12-12 shall be filed in support of caption 1 of each balance sheet.

Schedule II—Investments in and advances to affiliates. The schedule prescribed by §210.12-14 shall be filed in support of caption 2 of each balance sheet.

Schedule III—Investments—securities sold short. The schedule prescribed by §210.12-12A shall be filed in support of caption 9(a) of each balance sheet.

Schedule IV—Open option contracts written. The schedule prescribed by §210.12-13 shall be filed in support of caption 9(b) of each balance sheet.

Schedule V—Open futures contracts. The schedule prescribed by §210.12-13A shall be filed in support of captions 3(a) and 9(c) of each balance sheet.

Schedule VI—Open forward foreign currency contracts. The schedule prescribed by §210.12-13B shall be filed in support of captions 3(b) and 9(d) of each balance sheet.

Schedule VII—Open swap contracts. The schedule prescribed by §210.12-13C shall be filed in support of captions 3(c) and 9(e) of each balance sheet.

Schedule VIII—Investments—other than those presented in §§210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B and 12-13C. The schedule prescribed by §210.12-13D shall be filed in support of captions 3(d) and 9(f) of each balance sheet.

(2) When permitted by the applicable form, the schedule specified in this paragraph may be filed for management investment companies as of the dates of the most recent audited balance sheet and any subsequent unaudited statement being filed for each person or group.

Schedule IX—Summary schedule of investments in securities of unaffiliated issuers. The schedule prescribed by §210.12-12B may be filed in support of caption 1 of each balance sheet.

(c) *Unit investment trusts.* Except as otherwise provided in the applicable form:

(1) Schedules I and II, specified below in this section, shall be filed for unit investment trusts as of the dates of the most recent audited balance sheet and any subsequent unaudited statement being filed for each person or group.

(2) Schedule III, specified below in this section, shall be filed for unit investment trusts for each period for which a statement of operations is required to be filed for each person or group.

Schedule I—Investment in securities. The schedule prescribed by §210.12-12 shall be filed in support of caption 1 of each balance sheet (§210.6-04).

Schedule II—Allocation of trust assets to series of trust shares. If the trust assets are specifically allocated to different series of trust shares, and if such allocation is not shown in the balance sheet in columnar form or by the filing of separate statements for each series of trust shares, a schedule shall be filed showing the amount of trust assets, indicated by each balance sheet filed, which is applicable to each series of trust shares.

Schedule III—Allocation of trust income and distributable funds to series of trust shares. If the trust income and distributable funds are specifically allocated to different series of trust shares and if such allocation is not shown in the statement of operations in columnar form or by the filing of separate statements for each series of trust shares, a schedule shall be submitted showing the amount of income and distributable funds, indicated by each statement of operations filed, which is applicable to each series of trust shares.

(d) *Face-amount certificate investment companies.* Except as otherwise provided in the applicable form:

(1) Schedules I, V and X, specified below, shall be filed for face-amount certificate investment companies as of the dates of the most recent audited balance sheet and any subsequent unaudited statement being filed for each person or group.

(2) All other schedules specified below in this section shall be filed for face-amount certificate investment companies for each period for which a statement of operations is filed, except as indicated for Schedules III and IV.

Schedule I—Investment in securities of unaffiliated issuers. The schedule prescribed by §210.12-21 shall be filed in support of caption 1 and, if applicable, caption

5(a) of each balance sheet. Separate schedules shall be furnished in support of each caption, if applicable.

Schedule II—Investments in and advances to affiliates and income thereon. The schedule prescribed by §210.12-22 shall be filed in support of captions 1 and 5(b) of each balance sheet and caption 1 of each statement of operations. Separate schedules shall be furnished in support of each caption, if applicable.

Schedule III—Mortgage loans on real estate and interest earned on mortgages. The schedule prescribed by §210.12-23 shall be filed in support of captions 1 and 5(c) of each balance sheet and caption 1 of each statement of operations, except that only the information required by column G and note 8 of the schedule need be furnished in support of statements of operations for years for which related balance sheets are not required.

Schedule IV—Real estate owned and rental income. The schedule prescribed by §210.12-24 shall be filed in support of captions 1 and 5(a) of each balance sheet and caption 1 of each statement of operations for rental income included therein, except that only the information required by columns H, I and J, and item "Rent from properties sold during the period" and note 4 of the schedule need be furnished in support of statements of operations for years for which related balance sheets are not required.

Schedule V—Qualified assets on deposit. The schedule prescribed by §210.12-27 shall be filed in support of the information required by caption 4 of §210.6-06 as to total amount of qualified assets on deposit.

Schedule VI—Certificate reserves. The schedule prescribed by §210.12-26 shall be filed in support of caption 7 of each balance sheet.

Schedule VII—Valuation and qualifying accounts. The schedule prescribed by §210.12-09 shall be filed in support of all other reserves included in the balance sheet.

10. Revise §210.12-12 to read as follows:

FOR MANAGEMENT INVESTMENT COMPANIES

§210.12-12 Investments in securities of unaffiliated issuers.

[For management investment companies only]

Col. A	Col. B	Col. C
Name of issuer and title of issue[1] [2] [3] [4]	Balance held at close of period. Number of shares—principal amount of bonds and notes [7]	Value of each item at close of period. [5] [6] [8] [9] [10] [11] [12]

[1]Each issue shall be listed separately: *Provided,* however, that an amount not exceeding five percent of the total of Column C may be listed in one amount as "Miscellaneous securities," provided the securities so listed are not restricted, have been held for not more than one year prior to the date of the related balance sheet, and have not previously been reported by name to the shareholders of the person for which the schedule is filed or to any exchange, or set forth in any registration statement, application, or annual report or otherwise made available to the public. If any securities are listed as "Miscellaneous securities," briefly explain in a footnote what the term represents.

[2]Categorize the schedule by (i) the type of investment (such as common stocks, preferred stocks, convertible securities, fixed income securities, government securities, options purchased, warrants, loan participations and assignments, commercial paper, bankers' acceptances, certificates of deposit, short-term securities, repurchase agreements, other investment companies, and so forth); (ii) the related industry of the investment; and (iii) the related country, or geographic region of the investment. Short-term debt

instruments (*i.e.*, debt instruments whose maturities or expiration dates at the time of acquisition are one year or less) of the same issuer may be aggregated, in which case the range of interest rates and maturity dates shall be indicated. For issuers of periodic payment plan certificates and unit investment trusts, list separately: (i) Trust shares in trusts created or serviced by the depositor or sponsor of this trust; (ii) trust shares in other trusts; and (iii) securities of other investment companies. Restricted securities shall not be combined with unrestricted securities of the same issuer. Repurchase agreements shall be stated separately showing for each the name of the party or parties to the agreement, the date of the agreement, the total amount to be received upon repurchase, the repurchase date and description of securities subject to the repurchase agreements.

[3]For options purchased, all information required by §210.12-13 for options contracts written should be shown. Options on underlying investments where the underlying investment would otherwise be presented in accordance with §§210.12-12, 12-13A, 12-13B, 12-13C, or 12-13D should include the description of the underlying investment as would be required by §§210.12-12, 12-13A, 12-13B, 12-13C, or 12-13D as part of the description of the option.

[4]Indicate the interest rate or preferential dividend rate and maturity date, as applicable, for preferred stocks, convertible securities, fixed income securities, government securities, loan participations and assignments, commercial paper, bankers' acceptances, certificates of deposit, short-term securities, repurchase agreements, or other instruments with a stated rate of income. For variable rate securities, indicate a description of the reference rate and spread. For securities with payment in kind income, disclose the rate paid in kind.

[5]The subtotals for each category of investments, subdivided both by type of investment and industry, country, or geographic region, shall be shown together with their percentage value compared to net assets.

[6]Column C shall be totaled. The total of column C shall agree with the correlative amounts shown on the related balance sheet.

[7]Indicate by an appropriate symbol each issue of securities which is non-income producing. Evidences of indebtedness and preferred shares may be deemed to be income producing if, on the respective last interest payment date or date for the declaration of dividends prior to the date of the related balance sheet, there was only a partial payment of interest or a declaration of only a partial amount of the dividends payable; in such case, however, each such issue shall be indicated by an appropriate symbol referring to a note to the effect that, on the last interest or dividend date, only partial interest was paid or partial dividends declared. If, on such respective last interest or dividend date, no interest was paid or no cash or in kind dividends declared, the issue shall not be deemed to be income producing. Common shares shall not be deemed to be income producing unless, during the last year preceding the date of the related balance sheet, there was at least one dividend paid upon such common shares.

[8]Indicate by an appropriate symbol each issue of restricted securities. State the following in a footnote: (a) As to each such issue: (1) Acquisition date, (2) carrying value per unit of investment at date of related balance sheet, e.g., a percentage of current market value of unrestricted securities of the same issuer, etc., and (3) the cost of such securities; (b) as to each issue acquired during the year preceding the date of the related balance sheet, the carrying value per unit of investment of unrestricted securities of the

same issuer at: (1) The day the purchase price was agreed to; and (2) the day on which an enforceable right to acquire such securities was obtained; and (c) the aggregate value of all restricted securities and the percentage which the aggregate value bears to net assets.

[9]Indicate by an appropriate symbol each issue of securities whose fair value was determined using significant unobservable inputs.

[10]Indicate by an appropriate symbol each issue of illiquid securities.

[11]Indicate by an appropriate symbol each issue of securities held in connection with open put or call option contracts, loans for short sales, or where any portion of the issue is on loan.

[12]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of securities for Federal income tax purposes.

11. Revise §210.12-12A to read as follows:

§210.12-12A Investments—securities sold short.

[For management investment companies only]

Col. A	Col. B	Col. C
Name of issuer and title of issue[1 2 3]	Balance of short position at close of period. (number of shares)	Value of each open short position[4 5 6 7 8]

[1]Each issue shall be listed separately.

[2]Categorize the schedule as required by instruction 2 of §210.12-12.

[3] Indicate the interest rate or preferential dividend rate and maturity date, as applicable, as required by instruction 4 of §210.12-12.

[4]The subtotals for each category of investments, subdivided both by type of investment and industry, country, or geographic region, shall be shown together with their percentage value compared to net assets.

[5]Column C shall be totaled. The total of column C shall agree with the correlative amounts shown on the related balance sheet.

[6]Indicate by an appropriate symbol each issue of securities whose fair value was determined using significant unobservable inputs.

[7]Indicate by an appropriate symbol each issue of securities held in connection with open put or call option contracts.

[8]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of securities for Federal income tax purposes.

12. Revise §210.12-12B to read as follows:

§210.12-12B Summary schedule of investments in securities of unaffiliated issuers.

Column A	Column B	Column C	Column D
Name of issuer and title of issue[1] [3 4 5 6 7 8]	Balance held at close of period. Number of shares—principal amount of bonds and notes [10]	Value of each item at close of period[2 9] [11 12 13 14 15]	Percentage value compared to net assets.

[1]Categorize the schedule by (a) the type of investment (such as common stocks, preferred stocks, convertible securities, fixed income securities, government securities,

options purchased, warrants, loan participations and assignments, commercial paper, bankers' acceptances, certificates of deposit, short-term securities, repurchase agreements, other investment companies, and so forth); (b) the related industry of the investment; and (c) the related country or geographic region of the investment.

[2]The subtotals for each category of investments, subdivided both by type of investment and industry, country, or geographic region, shall be shown together with their percentage value compared to net assets.

[3]Indicate the interest rate or preferential dividend rate and maturity date, as applicable, for preferred stocks, convertible securities, fixed income securities, government securities, loan participations and assignments, commercial paper, bankers' acceptances, certificates of deposit, short-term securities, repurchase agreements, or other instruments with a stated rate of income. For variable rate securities, indicate a description of the reference rate and spread. For securities with payment in kind income, disclose the rate paid in kind.

[4]Except as provided in note 6, list separately the 50 largest issues and any other issue the value of which exceeded one percent of net asset value of the registrant as of the close of the period. For purposes of the list (including, in the case of short-term debt instruments, the first sentence of note 4), aggregate and treat as a single issue, respectively, (a) short-term debt instruments (*i.e.*, debt instruments whose maturities or expiration dates at the time of acquisition are one year or less) of the same issuer (indicating the range of interest rates and maturity dates); and (b) fully collateralized repurchase agreements (indicate in a footnote the range of dates of the repurchase agreements, the total purchase price of the securities, the total amount to be received

upon repurchase, the range of repurchase dates, and description of securities subject to the repurchase agreements). Restricted and unrestricted securities of the same issue should be aggregated for purposes of determining whether the issue is among the 50 largest issues, but should not be combined in the schedule. For purposes of determining whether the value of an issue exceeds one percent of net asset value, aggregate and treat as a single issue all securities of any one issuer, except that all fully collateralized repurchase agreements shall be aggregated and treated as a single issue. The U.S. Treasury and each agency, instrumentality, or corporation, including each government-sponsored entity, that issues U.S. government securities is a separate issuer.

[5]For options purchased, all information required by §210.12-13 for options contracts written should be shown. Options on underlying investments where the underlying investment would otherwise be presented in accordance with §§210.12-12, 12-13A, 12-13B, 12-13C, or 12-13D should include the description of the underlying investment as would be required by §§210.12-12, 12-13A, 12-13B, 12-13C, or 12-13D as part of the description of the option.

[6]If multiple securities of an issuer aggregate to greater than one percent of net asset value, list each issue of the issuer separately (including separate listing of restricted and unrestricted securities of the same issue) except that the following may be aggregated and listed as a single issue: (a) Fixed-income securities of the same issuer which are not among the 50 largest issues and whose value does not exceed one percent of net asset value of the registrant as of the close of the period (indicating the range of interest rates and maturity dates); and (b) U.S. government securities of a single agency, instrumentality, or corporation, which are not among the 50 largest issues and whose

value does not exceed one percent of net asset value of the registrant as of the close of the period (indicating the range of interest rates and maturity dates). For each category identified pursuant to note 1, group all issues that are neither separately listed nor included in a group of securities that is listed in the aggregate as a single issue in a sub-category labeled “Other securities,” and provide the information for Columns C and D.

[7]Any securities that would be required to be listed separately or included in a group of securities that is listed in the aggregate as a single issue may be listed in one amount as “Miscellaneous securities,” provided the securities so listed are eligible to be, and are, categorized as “Miscellaneous securities” in the registrant's Schedule of Investments in Securities of Unaffiliated Issuers required under §210.12-12. However, if any security that is included in “Miscellaneous securities” would otherwise be required to be included in a group of securities that is listed in the aggregate as a single issue, the remaining securities of that group must nonetheless be listed as required by notes 4 and 5 even if the remaining securities alone would not otherwise be required to be listed in this manner (e.g., because the combined value of the security listed in “Miscellaneous securities” and the remaining securities of the same issuer exceeds one percent of net asset value, but the value of the remaining securities alone does not exceed one percent of net asset value).

[8]If any securities are listed as “Miscellaneous securities” pursuant to note 6 or “Other securities” pursuant to note 5, briefly explain in a footnote what those terms represent.

[9]Total Column C. The total of column C should equal the total shown on the related balance sheet for investments in securities of unaffiliated issuers.

[10]Indicate by an appropriate symbol each issue of securities which is non-income producing. Evidences of indebtedness and preferred shares may be deemed to be income producing if, on the respective last interest payment date or date for the declaration of dividends prior to the date of the related balance sheet, there was only a partial payment of interest or a declaration of only a partial amount of the dividends payable; in such case, however, each such issue shall be indicated by an appropriate symbol referring to a note to the effect that, on the last interest or dividend date, only partial interest was paid or partial dividends declared. If, on such respective last interest or dividend date, no interest was paid or no cash or in kind dividends declared, the issue shall not be deemed to be income producing. Common shares shall not be deemed to be income producing unless, during the last year preceding the date of the related balance sheet, there was at least one dividend paid upon such common shares.

[11]Indicate by an appropriate symbol each issue of restricted securities. State the following in a footnote: (a) as to each such issue: (1) Acquisition date, (2) carrying value per unit of investment at date of related balance sheet, e.g., a percentage of current market value of unrestricted securities of the same issuer, etc., and (3) the cost of such securities; (b) as to each issue acquired during the year preceding the date of the related balance sheet, the carrying value per unit of investment of unrestricted securities of the same issuer at: (1) The day the purchase price was agreed to; and (2) the day on which an enforceable right to acquire such securities was obtained; and (c) the aggregate value of all restricted securities and the percentage which the aggregate value bears to net assets.

[12]Indicate by an appropriate symbol each issue of securities whose fair value was determined using significant unobservable inputs.

[13]Indicate by an appropriate symbol each issue of illiquid securities.

[14]Indicate by an appropriate symbol each issue of securities held in connection with open put or call option contracts, loans for short sales, or where any portion of the issue is on loan.

[15]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of securities for Federal income tax purposes.

§210.12-12C [Removed and Reserved].

13. Remove and reserve §210.12-12C.

14. Revise §210.12-13 to read as follows:

§210.12-13 Open option contracts written.

[For management investment companies only]

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F	Col. G
Description[1 2 3]	Counterparty[4]	Number of contracts[5]	Notional amount	Exercise price	Expiration date	Value[6 7 8 9 10]

[1]Information as to put options shall be shown separately from information as to call options.

[2]Options where descriptions, counterparties, exercise prices or expiration dates differ shall be listed separately.

[3]Options on underlying investments where the underlying investment would otherwise be presented in accordance with §§210.12-12, 12-13A, 12-13B, 12-13C, or 12-

13D should include the description of the underlying investment as would be required by §§210.12-12, 12-13A, 12-13B, 12-13C, or 12-13D as part of the description of the option.

If the underlying investment is an index or basket of investments, and the components are publicly available on a website as of the balance sheet date, identify the index or basket. If the underlying investment is an index or basket of investments, the components are not publicly available on a website as of the balance sheet date, and the notional amount of the option contract does not exceed one percent of the net asset value of the registrant as of the close of the period, identify the index or basket. If the underlying investment is an index or basket of investments, the components are not publicly available on a website as of the balance sheet date, and the notional amount of the option contract exceeds one percent of the net asset value of the registrant as of the close of the period, list separately each underlying investment in the index or basket. For each investment separately listed, include the description of the underlying investment as would be required by §§210.12-12, 12-13, 12-13A, 12-13B, or 12-13D as part of the description, the quantity held (e.g. the number of shares for common stocks, principal amount for fixed income securities), the value at the close of the period, and the percentage value when compared to the custom basket's net assets.

[4]Not required for exchange-traded options.

[5]If the number of shares subject to option is substituted for number of contracts, the column name shall reflect that change.

[6]Indicate by an appropriate symbol each investment which cannot be sold because of restrictions or conditions applicable to the investment.

[7]Indicate by an appropriate symbol each investment whose fair value was determined using significant unobservable inputs.

[8]Indicate by an appropriate symbol each illiquid investment.

[9]Column G shall be totaled and shall agree with the correlative amount shown on the related balance sheet.

[10]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of investments for Federal income tax purposes.

15. Add §210.12-13A to read as follows:

§210.12-13A Open futures contracts.

[For management investment companies only]

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Description[1][2]	Number of contracts	Expiration date	Notional amount	Value	Unrealized appreciation/depreciation[4][5][6][7][8]

[1]Information as to long purchases of futures contracts shall be shown separately from information as to futures contracts sold short.

[2]Futures contracts where descriptions or expiration dates differ shall be listed separately.

[3]Description should include the name of the reference asset or index.

[4]Indicate by an appropriate symbol each investment which cannot be sold because of restrictions or conditions applicable to the investment.

[5]Indicate by an appropriate symbol each investment whose fair value was determined using significant unobservable inputs.

[6]Indicate by an appropriate symbol each illiquid investment.

[7]Column F shall be totaled and shall be reconciled to the total variation margin receivable or payable on the related balance sheet.

[8]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of investments for Federal income tax purposes.

16. Add §210.12-13B to read as follows:

§210.12-13B Open forward foreign currency contracts.

[For management investment companies only]

Col. A	Col. B	Col. C	Col. D	Col. E
Amount and description of currency to be purchased[1]	Amount and description of currency to be sold[1]	Counterparty	Settlement date	Unrealized appreciation/depreciation[2 3 4 5 6]

[1]Forward foreign currency contracts where description of currency purchased, description of currency sold, counterparty, or settlement dates differ shall be listed separately.

[2]Indicate by an appropriate symbol each investment which cannot be sold because of restrictions or conditions applicable to the investment.

[3]Indicate by an appropriate symbol each investment whose fair value was determined using significant unobservable inputs.

[4]Indicate by an appropriate symbol each illiquid investment.

[5]Column E shall be totaled and shall agree with the total of correlative amount(s) shown on the related balance sheet.

[6]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of investments for Federal income tax purposes.

17. Add §210.12-13C to read as follows:

§210.12-13C Open swap contracts.

[For management investment companies only]

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F	Col. G	Col. H
Description and terms of payments to be received from another party[1 2 3]	Description and terms of payments to be paid to another party[1 2 3]	Counterparty[4]	Maturity date	Notional amount	Value	Upfront payments/ receipts	Unrealized appreciation/ depreciation[5 6 7 8 9]

[1]List each major category of swaps by descriptive title (e.g., credit default swaps, interest rate swaps, total return swaps). Credit default swaps where protection is sold shall be listed separately from credit default swaps where protection is purchased.

[2]Swaps where description, counterparty, or maturity dates differ shall be listed separately within each major category.

[3]Description should include information sufficient for a user of financial information to understand the terms of payments to be received and paid. (e.g. For a credit default swap, including, among other things, description of reference obligation(s) or index, financing rate to be paid or received, and payment frequency. For an interest rate swap, this may include, among other things, whether floating rate is paid or received, fixed interest rate, floating interest rate, and payment frequency. For a total return swap, this may include, among other things, description of reference asset(s) or index, financing rate, and payment frequency.)

If the reference instrument is an index or basket of investments, and the components are publicly available on a website as of the balance sheet date, identify the index or basket. If the reference instrument is an index or basket of investments, the components are not publicly available on a website as of the balance sheet date, and the notional amount of the swap contract does not exceed one percent of the net asset value of the registrant as of the close of the period, identify the index or basket. If the reference instrument is an index or basket of investments, the components are not publicly available on a website as of the balance sheet date, and the notional amount of the swap contract exceeds one percent of the net asset value of the registrant as of the close of the period, list separately each underlying investment. For each investment separately listed, include the description of the underlying investment as would be required by §§210.12-12, 12-13, 12-13A, 12-13B, or 12-13D as part of the description, the quantity held (e.g. the number of shares for common stocks, principal amount for fixed income securities), the value at the close of the period, and the percentage value when compared to the custom basket's net assets.

[4]Not required for exchange-traded swaps.

[5]Indicate by an appropriate symbol each investment which cannot be sold because of restrictions or conditions applicable to the investment.

[6]Indicate by an appropriate symbol each investment whose fair value was determined using significant unobservable inputs.

[7]Indicate by an appropriate symbol each illiquid investment.

[8]Columns F, G, and H shall be totaled and shall agree with the total of correlative amount(s) shown on the related balance sheet.

[9]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of investments for Federal income tax purposes.

18. Add §210.12-13D to read as follows:

§210.12-13D Investments other than those presented in §§210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B, and 12-13C.

[For management investment companies only]

Col. A	Col. B	Col. C
Description[1] [2] [3]	Balance held at close of period—quantity[4] [5]	Value of each item at close of period[6] [7] [8] [9] [10] [11]

[1]Each investment where any portion of the description differs shall be listed separately.

[2]Categorize the schedule by (i) the type of investment (such as real estate, commodities, and so forth); and, as applicable, (ii) the related industry of the investment and (iii) the related country, or geographic region of the investment.

[3]Description should include information sufficient for a user of financial information to understand the nature and terms of the investment, which may include, among other things, reference security, asset or index, currency, geographic location, payment terms, payment rates, call or put feature, exercise price, expiration date, and counterparty for non-exchange-traded investments.

[4]If practicable, indicate the quantity or measure in appropriate units.

[5]Indicate by an appropriate symbol each investment which is non-income producing.

[6]Indicate by an appropriate symbol each investment which cannot be sold because of restrictions or conditions applicable to the investment.

[7]Indicate by an appropriate symbol each investment whose fair value was determined using significant unobservable inputs.

[8]Indicate by an appropriate symbol each illiquid investment.

[9]Indicate by an appropriate symbol each investment subject to option. State in a footnote: (a) The quantity subject to option, (b) nature of option contract, (c) option price, and (d) dates within which options may be exercised.

[10]Column C shall be totaled and shall agree with the correlative amount shown on the related balance sheet.

[11]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all investments in which there

is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of investments for Federal income tax purposes.

19. Revise §210.12-14 to read as follows:

§210.12-14 Investments in and advances to affiliates.

[For management investment companies only]

Col. A	Col. B	Col. C	Col. D	Col. E	Col. F
Name of issuer and title of issue or nature of indebtedness[1 2 3]	Number of shares—principal amount of bonds, notes and other indebtedness held at close of period	Net realized gain or loss for the period[4 6]	Net increase or decrease in unrealized appreciation or depreciation for the period[4 6]	Amount of dividends or interest [4 6] (1) Credited to income. (2) Other.	Value of each item at close of period [4 5 7 8 9 10 11]

[1](a) List each issue separately and group (1) Investments in majority-owned subsidiaries; (2) other controlled companies; and (3) other affiliates. (b) If during the period there has been any increase or decrease in the amount of investment in and advance to any affiliate, state in a footnote (or if there have been changes to numerous affiliates, in a supplementary schedule) (1) name of each issuer and title of issue or nature of indebtedness; (2) balance at beginning of period; (3) gross additions; (4) gross reductions; (5) balance at close of period as shown in Column E. Include in the footnote or schedule comparable information as to affiliates in which there was an investment at any time during the period even though there was no investment at the close of the period of report.

[2]Categorize the schedule as required by instruction 2 of §210.12-12.

[3]Indicate the interest rate or preferential dividend rate and maturity date, as applicable, as required by instruction 4 of §210.12-12.

[4]Columns C, D, E, and F shall be totaled. The totals of Column F shall agree with the correlative amount shown on the related balance sheet.

[5](a) Indicate by an appropriate symbol each issue of restricted securities. The information required by instruction 8 of §210.12-12 shall be given in a footnote. (b) Indicate by an appropriate symbol each issue of securities subject to option. The information required by §210.12-13 shall be given in a footnote.

[6](a) Include in Column E (1) as to each issue held at the close of the period, the dividends or interest included in caption 1 of the statement of operations. In addition, show as the final item in Column E (1) the aggregate of dividends and interest included in the statement of operations in respect of investments in affiliates not held at the close of the period. The total of this column shall agree with the correlative amount shown on the related statement of operations.

(b) Include in Column E (2) all other dividends and interest. Explain in an appropriate footnote the treatment accorded each item.

(c) Indicate by an appropriate symbol all non-cash dividends and interest and explain the circumstances in a footnote.

(d) Indicate by an appropriate symbol each issue of securities which is non-income producing. Evidences of indebtedness and preferred shares may be deemed to be income producing if, on the respective last interest payment date or date for the declaration of dividends prior to the date of the related balance sheet, there was only a partial payment of interest or a declaration of only a partial amount of the dividends

payable; in such case, however, each such issue shall be indicated by an appropriate symbol referring to a note to the effect that, on the last interest or dividend date, only partial interest was paid or partial dividends declared. If, on such respective last interest or dividend date, no interest was paid or no cash or in kind dividends declared, the issue shall not be deemed to be income producing. Common shares shall not be deemed to be income producing unless, during the last year preceding the date of the related balance sheet, there was at least one dividend paid upon such common shares.

(e) Include in Column C (1) as to each issue held at the close of the period, the realized gain or loss included in caption 7 of the statement of operations. In addition, show as the final item in Column C (1) the aggregate of realized gain or loss included in the statement of operations in respect of investments in affiliates not held at the close of the period. The total of this column shall agree with the correlative amount shown on the related statement of operations.

(f) Include in Column D (1) as to each issue held at the close of the period, the net increase or decrease in unrealized appreciation or depreciation included in caption 7 of the statement of operations. In addition, show as the final item in Column D (1) the aggregate of increase or decrease in unrealized appreciation or depreciation included in the statement of operations in respect of investments in affiliates not held at the close of the period. The total of this column shall agree with the correlative amount shown on the related statement of operations.

[7]The subtotals for each category of investments, subdivided both by type of investment and industry, country, or geographic region, shall be shown together with their percentage value compared to net assets.

[8]Indicate by an appropriate symbol each issue of securities whose fair value was determined using significant unobservable inputs.

[9]Indicate by an appropriate symbol each issue of illiquid securities.

[10]Indicate by an appropriate symbol each issue of securities held in connection with open put or call option contracts, loans for short sales, or where any portion of the issue is on loan.

[11]State in a footnote the following amounts based on cost for Federal income tax purposes: (a) Aggregate gross unrealized appreciation for all securities in which there is an excess of value over tax cost, (b) the aggregate gross unrealized depreciation for all securities in which there is an excess of tax cost over value, (c) the net unrealized appreciation or depreciation, and (d) the aggregate cost of securities for Federal income tax purposes.

* * * * *

PART 230 — GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

20. The authority citation for part 230 continues to read, in part, as follows:

Authority: 15 U.S.C. 77b, 77b note, 77c, 77d, 77d note, 77f, 77g, 77h, 77j, 77r, 77s, 77z-3, 77sss, 78c, 78d, 78j, 78l, 78m, 78n, 78*o*, 78*o*-7 note, 78t, 78w, 78*ll* (d), 78mm, 80a-8, 80a-24, 80a-28, 80a-29, 80a-30, and 80a-37, and Pub. L. 112-106, sec. 201(a), 126 Stat. 313 (2012), unless otherwise noted.

* * * * *

21. Amend §230.498 by:

a. Adding to the end of paragraph (b)(1)(v)(A) "If a Fund relies on §270.30e-3 of this chapter to transmit a report, the legend must also include the Web site

address required by §270.30e-3(d)(1)(iv) of this chapter if different from the Web site address required by this paragraph (b)(1)(v)(A).”; and

b. In paragraph (f)(2), adding the phrase “a Notice or Initial Statement under §270.30e-1 of this chapter,” after “Statutory Prospectuses,”.

PART 232 — REGULATION S-T — GENERAL RULES AND REGULATIONS FOR ELECTRONIC FILINGS

22. The authority citation for part 232 continues to read, in part, as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s(a), 77z-3, 77sss(a), 78c(b), 78*l*, 78m, 78n, 78o(d), 78w(a), 78*ll*, 80a-6(c), 80a-8, 80a-29, 80a-30, 80a-37, and 7201 *et seq*.; and 18 U.S.C. 1350.

* * * * *

23. Amend §232.105 by removing paragraph (a) and redesignating paragraphs (b) and (c) as paragraphs (a) and (b).

24. Amend §232.301 by removing the fourth sentence “Additional provisions applicable to Form N-SAR filers are set forth in the EDGAR Filer Manual, Volume III: “N-SAR Supplement,” Version 4 (October 2014).”

25. Amend §232.401 paragraph (d)(2)(iii) by removing the phrase “, N-CSR (§274.128 of this chapter) or N-Q (§274.130 of this chapter)” and adding in its place “or N-CSR (§274.128 of this chapter)”.

PART 239 — FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

26. The authority citation for part 239 continues to read, in part, as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77z-2, 77z-3, 77sss, 78c, 78l, 78m, 78n, 78o(d), 78o-7, 78o-7 note, 78u-5, 78w(a), 78ll, 78mm, 80a-2(a), 80a-3, 80a-8, 80a-

9, 80a-10, 80a-13, 80a-24, 80a-26, 80a-29, 80a-30, 80a-37, and Pub. L. 111-203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

27. Amend Form N-14 (referenced in §239.23) Item 14, subpart 1(ii) by removing the phrase "the following schedules in support of the most recent balance sheet: (A) columns C and D of Schedule III [17 CFR 210.12-14]; and (B) Schedule IV [17 CFR 210.12-03];" and adding in its place "columns C and D of Schedule III [17 CFR 210.12-14] in support of the most recent balance sheet".

PART 240 — GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

28. The authority citation for part 240 continues to read, in part, as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77j, 77s, 77z-2, 77z-3, 77eee, 77ggg, 77nnn, 77sss, 77ttt, 78c, 78d, 78e, 78f, 78g, 78i, 78j, 78j-1, 78k, 78k-1, 78*l*, 78m, 78n, 78n-1, 78o, 78o-4, 78p, 78q, 78q-1, 78s, 78u-5, 78w, 78x, 78*ll*, 78mm, 80a-20, 80a-23, 80a-29, 80a-37, 80b-3, 80b-4, 80b-11, and 7201 *et seq.*; 18 U.S.C. 1350; and 12 U.S.C. 5221(e)(3) unless otherwise noted.

* * * * *

29. Amend §240.10A-1 paragraph (a)(4)(i) by removing the phrase "Form N-SAR" and adding in its place "Form N-CEN".

30. Amend §240.12b-25 by:

a. In the section heading, removing the phrase "Form N-SAR" and adding in its place "Form N-CEN";

b. In paragraph (a), removing the phrase "Form N-SAR" and adding in its place "Form N-CEN"; and

c. In paragraph (b)(2)(ii), removing the phrase “N-SAR,” and adding in its place “N-CEN,”.

31. Amend §240.13a-10 paragraph (h) by removing the phrase “Rule 30b1-1 (§270.30b1-1 of this chapter)” and adding in its place “§270.30a-1 of this chapter”.

32. Amend §240.13a-11 paragraph (b) by removing the phrase “§270.30b1-1” and adding in its place “§270.30a-1”.

33. Amend §240.13a-13 paragraph (b)(1) by removing the phrase “§270.30b1-1” and adding in its place “§270.30a-1 of this chapter”.

34. Amend §240.13a-16 paragraph (a)(1) by removing the phrase “Rule 30b1-1 (17 CFR 270.30b1-1)” and adding in its place “17 CFR 270.30a-1 of this chapter” .

35. Amend §240.14a-16 paragraph (f)(2)(iii) by adding the phrase “a Notice or Initial Statement under §270.30e-1 of this chapter,” after “§230.498(b) of this chapter,” in.

36. Amend §240.15d-10 paragraph (h) by removing the phrase “Rule 30b1-1 (§270.30b1-1 of this chapter)” and adding in its place “§270.30a-1 of this chapter”.

37. Amend §240.15d-11 paragraph (h) by removing the phrase “§270.30b1-1” and adding in its place “§270.30a-1”.

38. Amend §240.15d-13 paragraph (b)(1) by removing the phrase “§270.30b1-1” and adding in its place “§270.30a-1 of this chapter”.

39. Amend §240.15d-16 paragraph (a)(1) by removing the phrase “Rule 30b1-1 [17 CFR 270.30b1-1]” and adding in its place “17 CFR 270.30a-1”.

PART 249 — FORMS, SECURITIES EXCHANGE ACT OF 1934

40. The general authority citation for part 249 continues to read, and the sectional authority for §249.330 is revised to read as follows:

Authority: 15 U.S.C. 78a *et seq*. and 7201 *et seq*.; 12 U.S.C. 5461 *et seq*.; and 18 U.S.C. 1350, unless otherwise noted.

* * * * *

Section 249.330 is also issued under 15 USC 80a-29(a).

* * * * *

41. Amend §249.322 in the first sentence of paragraph (a) by removing the phrase "or a semi-annual, annual, or transition report on Form N-SAR (§§249.330; 274.101) or" and adding in its place "an annual report on Form N-CEN (§§249.330; 274.101), or a semi-annual or annual report on".

42. Section 249.330 is revised to read as follows:

§249.330 Form N-CEN, annual report of registered investment companies.

This form shall be used by registered unit investment trusts and small business investment companies for annual reports to be filed pursuant to §270.30a-1 of this chapter in satisfaction of the requirement of section 30(a) of the Investment Company Act of 1940 (15 USC 80a-29(a)) that every registered investment company must file annually with the Commission such information, documents, and reports as investment companies having securities registered on a national securities exchange are required to file annually pursuant to section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a)) and the rules and regulations thereunder.

Note: The text of Form N-CEN will not appear in the *Code of Federal Regulations*.

§249.332 [Removed and Reserved].

43. Section 249.332 is removed and reserved.

PART 270 — RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

44. The authority citation for part 270 continues to read, in part, as follows:

Authority: 15 U.S.C. 80a-1 *et seq*., 80a-34(d), 80a-37, 80a-39, and Pub. L. 111-203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

45. Amend §270.8b-16 paragraph (a) by removing the phrase "a semi-annual report on Form N-SAR, as prescribed by rule 30b1-1 (17 CFR 270.30b1-1)" and adding in its place "an annual report on Form N-CEN, as prescribed by 17 CFR 270.30a-1".

46. Amend §270.8b-33 by:

a. In the first sentence, removing the phrase ", Form N-CSR (§§249.331 and 274.128 of this chapter), or Form N-Q (§§249.332 and 274.130 of this chapter)" and adding in its place the phrase "or Form N-CSR (§§249.331 and 274.128 of this chapter)"; and

b. In the third sentence, removing the phrase "or Form N-Q".

47. Amend §270.10f-3 by removing and reserving paragraph (c)(9).

48. Revise §270.30a-1 to read as follows:

§270.30a-1 Annual report for registered investment companies.

Every registered investment company must file an annual report on Form N-CEN (§274.101 of this chapter) at least every twelve months and not more than sixty calendar days after the close of each fiscal year. A registered investment company that has filed a registration statement with the Commission registering its securities for the first time

under the Securities Act of 1933 is relieved of this reporting obligation with respect to any reporting period or portion thereof prior to the date on which that registration statement becomes effective or is withdrawn.

49. Amend §270.30a-2 by:

a. In the section heading, removing the phrase “and Form N-Q”; and

b. In the first sentence of paragraph (a), removing the phrases “or Form N-Q (§§249.332 and 274.130 of this chapter)” and “or Item 3 of Form N-Q, as applicable,”.

50. Amend §270.30a-3 by:

a. In paragraph (b), removing the phrase “and Form N-Q (§§249.332 and 274.130 of this chapter)”.

b. In the first sentence of paragraph (c), removing the phrase “and Form N-Q (§§249.332 and 274.130 of this chapter)”.

c. In the second sentence of paragraph (c), removing the phrase “and Form N-Q (§§249.332 and 274.130 of this chapter)”.

51. Section 270.30a-4 is added to read as follows:

§270.30a-4 Annual report for wholly-owned registered management investment company subsidiary of registered management investment company.

Notwithstanding the provisions of §270.30a-1, a registered management investment company that is a wholly-owned subsidiary of a registered management investment company need not file an annual report on Form N-CEN if financial information with respect to that subsidiary is reported in the parent's annual report on Form N-CEN.

§270.30b1-1 [Removed and Reserved].

52. Section 270.30b1-1 is removed and reserved.

§270.30b1-2 [Removed and Reserved].

53. Section 270.30b1-2 is removed and reserved.

§270.30b1-3 [Removed and Reserved].

54. Section 270.30b1-3 is removed and reserved.

§270.30b1-5 [Removed and Reserved].

55. Section 270.30b1-5 is removed and reserved.

56. Section 270.30b1-9 is added to read as follows:

§270.30b1-9 Monthly report.

Each registered management investment company or exchange-traded fund organized as a unit investment trust, or series thereof, other than a registered open-end management investment company that is regulated as a money market fund under §270.2a-7 or a small business investment company registered on Form N-5 (§§239.24 and 274.5 of this chapter), must file a monthly report of portfolio holdings on Form N-PORT (§274.150 of this chapter), current as of the last business day, or last calendar day, of the month. A registered investment company that has filed a registration statement with the Commission registering its securities for the first time under the Securities Act of 1933 is relieved of this reporting obligation with respect to any reporting period or portion thereof prior to the date on which that registration statement becomes effective or is withdrawn. Reports on Form N-PORT must be filed with the Commission no later than 30 days after the end of each month.

57. Amend §270.30d-1 by:

a. In the first sentence, removing the phrase "and Form N-Q (§§249.332 and 274.130 of this chapter)"; and

b. In the second sentence, removing the phrase "Form N-SAR" and adding in its place "Form N-CEN".

58. Section 270.30e-3 is added to read as follows:

§270.30e-3 Internet availability of reports to shareholders.

(a) *Website Transmission.* A report required by §270.30e-1 or §270.30e-2 will be considered transmitted to a shareholder of record if all of the conditions set forth in paragraphs (b) through (e) of this section are satisfied.

(b) *Availability of Report to Shareholders and Other Materials.*

(1) The following materials are publicly accessible, free of charge, at the website address specified in the Notice from the date of the transmission in reliance on paragraph (a) of this section until the Fund next transmits a report required by §270.30e-1 or §270.30e-2:

(i) The Fund's current report required by §270.30e-1 or §270.30e-2.

(ii) Any report required by §270.30e-1 or §270.30e-2 transmitted to shareholders of record within the last 244 days.

(iii) In the case of a Fund that is a management company, other than a Fund that is regulated as a money market fund under §270.2a-7 or a small business investment company registered on Form N-5 (§§239.24 and 274.5 of this chapter), the Fund's complete portfolio holdings as of the close of the Fund's most recent first and third fiscal quarters, if any, after the date on which the Fund's registration statement became effective, presented in accordance with the schedules set forth in §§210.12-12 – 12-14 of Regulation S-X [17 CFR 210.12-12 – 12-14], which need not be audited.

(2) In the case of a Fund that is a management company, other than a Fund that is regulated as a money market fund under §270.2a-7 or a small business investment company registered on Form N-5 (§§239.24 and 274.5 of this chapter), the Fund's complete portfolio holdings as of the close of the next fiscal quarter, presented in accordance with the schedules set forth in §§210.12-12 – 12-14 of Regulation S-X [17 CFR 210.12-12 – 12-14], which need not be audited, are publicly accessible, free of charge, at the website address specified in the Notice from a date not more than 60 days after the close of the fiscal period until the Fund next transmits a report required by §270.30e-1 or §270.30e-2.

(3) The website address relied upon for compliance with this section may not be the address of the Commission's electronic filing system.

(4) The materials that are accessible in accordance with paragraphs (b)(1) through (b)(2) of this section must be presented on the website in a format, or formats, that are convenient for both reading online and printing on paper.

(5) Persons accessing the materials specified in paragraphs (b)(1) through (b)(2) of this section must be able to permanently retain, free of charge, an electronic version of such materials in a format, or formats, that meet the conditions of paragraph (b)(4) of this section.

(6) The conditions set forth in paragraphs (b)(1) through (b)(5) of this section shall be deemed to be met, notwithstanding the fact that the materials specified in paragraphs (b)(1) through (b)(2) of this section are not available for a time in the manner required by paragraphs (b)(1) through (b)(5) of this section, provided that:

(i) The Fund has reasonable procedures in place to ensure that the specified materials are available in the manner required by paragraphs (b)(1) through (b)(5) of this section; and

(ii) The Fund takes prompt action to ensure that the specified documents become available in the manner required by paragraphs (b)(1) through (b)(5) of this section, as soon as practicable following the earlier of the time at which it knows or reasonably should have known that the documents are not available in the manner required by paragraphs (b)(1) through (b)(5) of this section.

(c) *Consent.* The shareholder has previously consented to website transmission of shareholder reports or all of the following conditions are met:

(1) The Fund has transmitted a separate written statement ("Initial Statement") to the shareholder at least 60 days before the Fund begins to rely on this section concerning transmission of reports to that shareholder. The Initial Statement must be written using plain English principles pursuant to paragraph (e) of this section and:

(i) State that future shareholder reports will be accessible, free of charge, at a website;

(ii) Explain that the Fund will no longer mail printed copies of shareholder reports to the shareholder unless the shareholder notifies the Fund that he or she wishes to receive printed reports in the future;

(iii) Include a toll-free telephone number and be accompanied by a reply form that is pre-addressed with postage provided and that includes the information the Fund would need to identify the shareholder, and explain that the shareholder can use either of

those two methods at any time to notify the Fund that he or she wishes to receive printed reports in the future;

(iv) State that the Fund will mail printed copies of future shareholder reports within 30 days after the Fund receives notice of the shareholder's preference; and

(v) Contain a prominent legend in bold-face type that states: "How to Continue Receiving Printed Copies of Shareholder Reports". This legend must appear on the envelope in which the Initial Statement is delivered. Alternatively, if the Initial Statement is delivered separately from other communications to investors, this legend may appear either on the Initial Statement or on the envelope in which the Initial Statement is delivered.

(2) The Initial Statement may not be incorporated into, or combined with, another document.

(3) The Initial Statement must be sent separately from other types of shareholder communications and may not accompany any other document or materials; *provided, however*, that the Initial Statement may accompany the Fund's current Summary Prospectus, Statutory Prospectus, Statement of Additional Information, or Notice of Internet Availability of Proxy Materials under §240.14a-16 of this chapter.

(4) The Fund has not received the reply form or other notification indicating that the shareholder wishes to continue to receive a print copy of the report, within 60 days after the Fund sent the Initial Statement.

(d) *Notice.* The Fund must send a notice to shareholders ("Notice") meeting the following conditions of this paragraph (d) within 60 days after the close of the period for

which the report to shareholders transmitted in reliance on paragraph (a) of this section is being made:

(1) The Notice must be written using plain English principles pursuant to paragraph (e) of this section and:

(i) Contain a prominent legend in bold-face type that states "[A]n Important Report[s] to Shareholders of [insert Fund name or fund complex name] [is/are] Now Available Online and In Print by Request";

(ii) State that each report to shareholders contains important information about their Fund, including its portfolio holdings, and is available on the Internet or, upon request, by mail, and that encourages the shareholder to access and review the report.

(iii) Include a website address that leads directly to each report the Fund is transmitting to the recipient shareholder in reliance on this section.

(iv) Include a website address where the report to shareholders and other materials specified in paragraphs (b)(1) through (b)(2) of this section are available. The website address must be specific enough to lead investors directly to the documents that are required to be accessible under paragraphs (b)(1) through (b)(2) of this section, rather than to the home page or section of the website other than on which the documents are posted. The website may be a central site with prominent links to each document.

(v) Provide instructions describing how a shareholder may request a paper copy of the shareholder report and other materials specified in paragraphs (b)(1) through (b)(2) of this section at no charge, and an indication that they will not otherwise receive a paper or email copy.

(vi) Include a toll-free telephone number and be accompanied by a reply form that is pre-addressed with postage provided and that includes the information the Fund would need to identify the shareholder, and explain that the shareholder can use either of those two methods at any time to notify the Fund that he or she wishes to receive printed reports in the future.

(2) The Notice may not be incorporated into, or combined with, another document.

(3) The Notice may contain only the information required by paragraph (d)(1) of this section.

(4) The Notice must be sent separately from other types of shareholder communications and may not accompany any other document or materials; *provided, however*, that the Notice may accompany the Fund's current Summary Prospectus, Statutory Prospectus, Statement of Additional Information, or Notice of Internet Availability of Proxy Materials under §240.14a-16 of this chapter.

(5) A Notice required by this paragraph (d) will be considered sent to a shareholder of record if the Fund satisfies the conditions set forth in §270.30e-1(f) with respect to that shareholder.

(6) The Fund must file a form of the Notice with the Commission not later than 10 business days after it is sent to shareholders.

(e) *Plain English Requirements.*

(1) To enhance the readability of the Initial Statement and the Notice, the Fund must use plain English principles in the organization, language, and design of those materials.

(2) The Fund must draft the language in the Initial Statement and the Notice so that, at a minimum, the materials substantially comply with each of the following plain English writing principles:

(i) Short sentences;

(ii) Definite, concrete, everyday words;

(iii) Active voice;

(iv) Tabular presentation or bullet lists for complex material, whenever possible;

(v) No legal jargon or highly technical business terms; and

(vi) No multiple negatives.

(f) *Delivery upon Request.* The Fund (or a financial intermediary through which shares of the Fund may be purchased or sold) must send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the materials specified in paragraph (b)(1) through (b)(2) of this section to any person requesting such a copy within three business days after receiving a request for a paper copy.

(g) A Fund may not rely on this section to transmit a copy of its currently effective Statutory Prospectus or Statement of Additional Information, or both, under the Securities Act as permitted by paragraph (d) of §270.30e-1.

(h) *Definitions.* For purposes of this section:

(1) *Fund* means a registered investment company and any series of the investment company.

(2) *Initial Statement* means the statement described in paragraph (c)(1) of this section.

(3) *Notice* means the notice described in paragraph (d) of this section.

(4) *Statement of Additional Information* means the statement of additional information required by Part B of the registration form applicable to the Fund.

(5) *Statutory Prospectus* means a prospectus that satisfies the requirements of section 10(a) of the Securities Act of 1933 (15 U.S.C. 77(j)(a)).

(6) *Summary Prospectus* means the summary prospectus described in paragraph (b) of §230.498 of this chapter.

PART 274 — FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

59. The general authority citation for part 274 continues to read as follows, and the sectional authorities for §§274.101 and 274.130 are removed:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78*l*, 78m, 78n, 78o(d), 80a-8, 80a-24, 80a-26, 80a-29, and Pub. L. 111-203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

60. Form N-1A (referenced in 274.11A) is amended by:

a. In Item 16(f), Instruction 3(b), removing the phrase "or Form N-Q";

b. In Item 27(b)(1), Instruction 1, removing the phrase "Schedule VI" and adding in its place "Schedule IX", removing the phrase "[17 CFR 210.12-12C]" and

adding in its place "17 CFR 210.12-12B]", and removing the phrase "(b)" and adding in its place "(b) the Fund is not relying upon rule 30e-3 [17 CFR 270.30e-3] to transmit reports to its shareholders; and (c)";

c. In Item 27(b)(1), Instruction 2, removing the phrase ""[17 CFR 210.12-12C]" and adding in its place "17 CFR 210.12-12B]";

d. In Item 27(d), revising Instruction 4; and

e. Revising Item 33.

The revisions to Item 27(d), Instruction 4, and Item 33 of Form N-1A read as follows:

Note: The text of Form N-1A does not, and this amendment will not, appear in the Code of Federal Regulations.

Form N-1A

* * * * *

Item 27. Financial Statements

* * * * *

(d) Annual and Semi-Annual Reports.

* * * * *

Instructions

* * * * *

4. *Statement Regarding Availability of Quarterly Portfolio Schedule*. A statement that: (i) the Fund files its complete schedule of portfolio holdings with the Commission for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT; (ii) the Fund's Form N-PORT reports are available on the

Commission's website at http://www.sec.gov; and (iii) if the Fund makes the information on Form N-PORT available to shareholders on its website or upon request, a description of how the information may be obtained from the Fund; provided, however, that a Fund that makes its complete schedule of portfolio holdings for the first and third quarters of the fiscal year available on its website in accordance with rule 30e-3 under the Act should only provide a statement that describes how the information may be obtained from the Fund.

* * * * *

Item 33. Location of Accounts and Records

State the name and address of each person maintaining physical possession of each account, book, or other document required to be maintained by section 31(a) [15 U.S.C. 80a-30(a)] and the rules under that section.

Instructions

1. The instructions to Item 20.4 of this form shall also apply to this item.
2. Information need not be provided for any service for which total payments of less than $5,000 were made during each of the last three fiscal years.
3. A fund may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

* * * * *

61. Form N-2 (referenced in 274.11a-1) is amended by:

    a. In Item 24, Instruction 6, revising paragraph (b);

    b. In Item 24, revising Instruction 7; and

c. Revising Item 32.

The revisions to Form N-2 read as follows:

Note: The text of Form N-2 does not, and this amendment will not, appear in the Code of Federal Regulations.

Form N-2

* * * * *

Item 24. Financial Statements

* * * * *

Instructions

* * * * *

6. * * * *

b. *Statement Regarding Availability of Quarterly Portfolio Schedule.* A statement that: (i) the Registrant files its complete schedule of portfolio holdings with the Commission for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT; (ii) the Registrant's Form N-PORT reports are available on the Commission's website at http://www.sec.gov; (iii) if the Registrant makes the information on Form N-PORT available to shareholders on its website or upon request, a description of how the information may be obtained from the Registrant; *provided, however*, that a Fund that makes its complete schedule of portfolio holdings for the first and third quarters of the fiscal year available on its website in accordance with rule 30e-3 under the Act should only provide a statement that describes how the information may be obtained from the Fund.

* * * * *

7. Schedule IX – Summary schedule of investments in securities of unaffiliated issuers [17 CFR 210.12-12B] may be included in the financial statements required under Instructions 4.a. and 5.a. of this Item in lieu of Schedule I – Investments in securities of unaffiliated issuers [17 CFR 210.12-12] if: (a) the Registrant states in the report that the Registrant's complete schedule of investments in securities of unaffiliated issuers is available (i) without charge, upon request, by calling a specified toll-free (or collect) telephone number; (ii) on the Registrant's website, if applicable; and (iii) on the Commission's Website at http:// www.sec.gov; (b) the Registrant is not relying upon rule 30e-3 [17 CFR 270.30e-3] to transmit reports to its shareholders; and (c) whenever the Registrant (or financial intermediary through which shares of the Registrant may be purchased or sold) receives a request for the Registrant's schedule of investments in securities of unaffiliated issuers, the Registrant (or financial intermediary) sends a copy of Schedule I – Investments in securities of unaffiliated issuers within 3 business days of receipt by first-class mail or other means designed to ensure equally prompt delivery.

*** * * * ***

Item 32. Location of Accounts and Records

Furnish the name and address of each person maintaining physical possession of each account, book, or other document required to be maintained by Section 31(a) of the 1940 Act [15 U.S.C. 80a-30(a)] and the rules thereunder [17 CFR 270.31a-1 through 31a-3].

Instruction. A fund may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

*** * * * ***

62. Form N-3 (referenced in 274.11b) is amended by:

a. In Item 28(a), Instruction 6, revising paragraph (ii);

b. In Item 28(a), revising Instruction 7(i);

c. In Item 28(a), Instruction 7(ii), removing the phrase "[17 CFR 210.12-12C]" and adding in its place "17 CFR 210.12-12]"; and

d. Revising Item 36.

The revisions to Item 28(a), Instructions 6 and 7(i), and Item 36 of Form N-3 read as follows:

Note: The text of Form N-3 does not, and this amendment will not, appear in the Code of Federal Regulations.

Form N-3

* * * * *

Item 28. Financial Statements

* * * * *

Instructions

* * * * *

6. * * * *

* * * * *

(ii) *Statement Regarding Availability of Quarterly Portfolio Schedule.* A statement that: (i) the Fund files its complete schedule of portfolio holdings with the Commission for the first and third quarters of each fiscal year as an exhibit to its reports on Form N-PORT; (ii) the Fund's Form N-PORT reports are available on the Commission's website at http://www.sec.gov; and (iii) if the Fund makes the information

on Form N-PORT available to contractowners on its website or upon request, a description of how the information may be obtained from the Fund; *provided, however*, that a Fund that makes its complete schedule of portfolio holdings for the first and third quarters of the fiscal year available on its website in accordance with rule 30e-3 under the Act should only provide a statement that describes how the information may be obtained from the Fund."

* * * * *

7. * * * *

(i) Schedule IX – Summary schedule of investments in securities of unaffiliated issuers [17 CFR 210.12-12B] may be included in the financial statements required under Instructions 4.(i) and 5.(i) of this Item in lieu of Schedule I – Investments in securities of unaffiliated issuers [17 CFR 210.12-12] if: (A) the Registrant states in the report that the Registrant's complete schedule of investments in securities of unaffiliated issuers is available (1) without charge, upon request, by calling a specified toll-free (or collect) telephone number; (2) on the Registrant's website, if applicable; and (3) on the Commission's website at http://www.sec.gov; and (B) the Registrant is not relying upon rule 30e-3 [17 CFR 270.30e-3] to transmit reports to its contractowners; and (C) whenever the Registrant (or financial intermediary through which shares of the Registrant may be purchased or sold) receives a request for the Registrant's schedule of investments in securities of unaffiliated issuers, the Registrant (or financial intermediary) sends a copy of Schedule I – Investments in securities of unaffiliated issuers within 3 business days of receipt by first-class mail or other means designed to ensure equally prompt delivery.

*** * * * ***

Item 36. Location of Accounts and Records

Give the name and address of each person who maintains physical possession of each account, book, or other document required to be maintained by Section 31(a) of the 1940 Act [15 U.S.C. 80a-30(a)] and Rules under it [17 CFR 270.31a-1 to 31a-3].

Instruction. A fund may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

*** * * * ***

63. Form N-4 (referenced in 274.11c) is amended by adding to the end of Item 30 a new instruction "*Instruction.* A fund may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].".

64. Form N-6 (referenced in 274.11d) is amended by adding to the end of Item 31 a new instruction "*Instruction.* A fund may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].".

65. Section 274.101 and its heading are revised to read as follows:

§274.101 Form N-CEN, annual report of registered investment companies.

This form shall be used by registered investment companies for annual reports to be filed pursuant to 17 CFR 270.30a-1.

Note: The text of Form N-CEN will not appear in the *Code of Federal Regulations*.

FORM N-CEN
ANNUAL REPORT FOR REGISTERED INVESTMENT COMPANIES

Form N-CEN is to be used by all registered investment companies, other than face amount certificate companies, to file annual reports with the Commission, not later than 60 days after the close of the fiscal year for which the report is being prepared, pursuant to rule 30a-1 under the Investment Company Act of 1940 ("Act") (17 CFR 270.30a-1). Face amount certificate companies should continue to file periodic reports pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"). The Commission may use the information provided on Form N-CEN in its regulatory, enforcement, examination, disclosure review, inspection, and policymaking roles.

GENERAL INSTRUCTIONS

A. Rule as to Use of Form N-CEN

Form N-CEN is the reporting form that is to be used for annual reports filed pursuant to rule 30a-1 under the Act (17 CFR 270.30a-1) by registered investment companies, other than face amount certificate companies, under section 30(a) of the Act and, in the case of small business investment companies and registered unit investment trusts, under section 13 or 15(d) of the Exchange Act, if applicable.

Registrants must respond to all items in the relevant Parts of Form N-CEN, as listed below in this General Instruction A. If an item within a required Part is inapplicable, the Registrant should respond "N/A" to that item. Registrants are not, however, required to respond to items in Parts of Form N-CEN that they are not required by this General Instruction A to respond to.

Management investment companies: Management investment companies other than small business investment companies must complete Parts A, B, C, and G of this Form. Management investment companies that offer multiple series must complete Part C as to each series separately, even if some information is the same for two or more series. Closed-end management investment companies also must complete Part D of this Form. Small business investment companies must complete Parts A, B, D, and G of this Form. Management investment companies that are registered on Form N-3 also must complete certain items in Part F of this Form as directed by Item 7.c.i.

Exchange-traded funds or exchange-traded managed funds: Funds that are exchange-traded funds or exchange-traded managed funds, as defined by this Form, must complete Part E of this Form in addition to any other required Parts.

Unit investment trusts: Unit investment trusts must complete Parts A, B, F, and G of this Form.

B. Application of General Rules and Regulations

The General Rules and Regulations under the Act contain certain general requirements that are applicable to reporting on any form under the Act. These general requirements should be carefully read and observed in the preparation and filing of reports on this form, except that any provision in the form or in these instructions shall be controlling.

C. Filing of Report

All registered investment companies with shares outstanding (other than shares issued in connection with an initial investment to satisfy section 14(a) of the Investment Company Act) must file a report on Form N-CEN at least annually. If a Registrant changes its fiscal year, a report filed on Form N-CEN may cover a period shorter than 12 months, but in no event may a report filed on Form N-CEN cover a period longer than 12 months or a period that overlaps with a period covered by a previously filed report. For example, if in 2014 a Registrant with a September 30 fiscal year end changes its fiscal year end to December 31, the Registrant could file a report on this Form for the fiscal period ending September 30, 2014 and a report for the period ending December 31, 2014. A Registrant could not, however, only file a report for the fiscal period ending December 31, 2014 if its last report was filed for the fiscal period ending September 30, 2013. An extension of time of up to 15 days for filing the form may be obtained by following the procedures specified in rule l2b-25 under the Exchange Act (17 CFR 240.12b-25).

Reports must be filed electronically using the Commission's Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system in accordance with Regulation S-T. Consult the EDGAR Filer Manual and Appendices for EDGAR filing instructions.

D. Paperwork Reduction Act Information

A registrant is required to disclose the information specified by Form N-CEN, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CEN unless the form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. 3507.

E. Signature and Filing of Report

If the report is filed in paper pursuant to a hardship exemption from electronic filing (see Item 201 *et seq*. of Regulation S-T (17 CFR 232.201 *et seq*.)), eight complete copies of the report shall be filed with the Commission. At least one complete copy of the report shall be filed with each exchange on which any class of securities of the registrant is

registered. At least one complete copy of the report filed with the Commission and one such copy filed with each exchange must be manually signed. Copies not manually signed must bear typed or printed signatures.

A registrant may file an amendment to a previously filed report at any time, including an amendment to correct a mistake or error in a previously filed report. A registrant that files an amendment to a previously filed report must provide information in response to all required items of Form N-CEN, regardless of why the amendment is filed.

The report must be signed by the Registrant, and on behalf of the Registrant, by an authorized officer of the Registrant. The name of each person who signs the report shall be typed or printed beneath his or her signature. Attention is directed to rule 8b-11 under the Act (17 CFR 270.8b-11) concerning manual signatures and signatures pursuant to powers of attorney.

F. Definitions

Except as defined below or where the context clearly indicates the contrary, terms used in Form N-CEN have meanings as defined in the Act and the rules and regulations thereunder. Unless otherwise indicated, all references in the form or its instructions to statutory sections or to rules are sections of the Act and the rules and regulations thereunder.

In addition, the following definitions apply:

"Class" means a class of shares issued by a Multiple Class Fund that represents interest in the same portfolio of securities under rule 18f-3 under the Act (17 CFR 270.18f-3) or under an order exempting the Multiple Class Fund from sections 18(f), 18(g), and 18(i) of the Act (15 U.S.C. 80a-18(f), 18(g), and 18(i)).

"CRD number" means a central licensing and registration system number issued by the Financial Industry Regulatory Authority.

"Exchange-Traded Fund" means an open-end management investment company (or Series or Class thereof) or unit investment trust, the shares of which are listed and traded on a national securities exchange at market prices, and that has formed and operates under an exemptive order under the Act granted by the Commission or in reliance on an exemptive rule under the Act adopted by the Commission.

"Exchange-Traded Managed Fund" means an open-end management investment company (or Series or Class thereof) or unit investment trust, the shares of which are listed and traded on a national securities exchange at NAV-based prices, and that has formed and operates under an exemptive order under the Act granted by the Commission or in reliance on an exemptive rule under the Act adopted by the Commission.

"Fund" means the Registrant or a separate Series of the Registrant. When an item of Form N-CEN specifically applies to a Registrant or Series, those terms will be used.

"LEI" means, with respect to any company, the "legal entity identifier" as assigned or recognized by the Global LEI Regulatory Oversight Committee or the Global LEI Foundation. In the case of a financial institution, if a "legal entity identifier" has not been assigned, then provide the RSSD ID, if any, assigned by the National Information Center of the Board of Governors of the Federal Reserve System.

"Money Market Fund" means an open-end management investment company registered under the Act, or Series thereof, that is regulated as a money market fund pursuant to rule 2a-7 under the Act (17 CFR 270.2a-7).

"Multiple Class Fund" means a Fund that has more than one Class.

"PCAOB number" means the registration number issued to an independent public accountant registered with the Public Company Accounting Oversight Board.

"Registrant" means the investment company filing this report or on whose behalf the report is filed.

"SEC File number" means the number assigned to an entity by the Commission when that entity registered with the Commission in the capacity in which it is named in Form N-CEN.

"Series" means shares offered by a Registrant that represent undivided interests in a portfolio of investments and that are preferred over all other Series of shares for assets specifically allocated to that Series in accordance with rule 18f-2(a) (17 CFR 270.18f-2(a)).

FORM N-CEN
ANNUAL REPORT FOR REGISTERED INVESTMENT COMPANIES

Part A: General Information

Item 1. Reporting period covered.

a. Report for period ending: [month/day/year]

b. Does this report cover a period of less than 12 months? [Y/N]

Part B: Information About the Registrant

Instruction. If the response to an item in Part B differs between Series of the Registrant, provide a response for each Series, as applicable, and label the response with the name and Series identification number of the Series to which a response relates.

Item 2. Background information.

a. Full name of Registrant: ____

b. Investment Company Act file number (*e.g.*, 811-): ____

c. CIK: ____

d. LEI: ____

Item 3. Address and telephone number of Registrant.

a. Street: ____

b. City: ____

c. State, if applicable: ____

d. Foreign country, if applicable: ____

e. Zip code and zip code extension, or foreign postal code: ____

f. Telephone number (including country code if foreign): ____

g. Public website, if any: ____

Item 4. Location of books and records.

a. Name of person (*e.g.*, a custodian of records): ____

b. Street: ____

c. City: ____

d. State, if applicable

e. Foreign country, if applicable: ____

f. Zip code and zip code extension, or foreign postal code: ____

g. Telephone number (including country code if foreign): ____

h. Briefly describe the books and records kept at this location: ____

Instruction. Provide the requested information for each person maintaining physical possession of each account, book, or other document required to be maintained by section 31(a) of the Act (15 U.S.C. 80a-30(a)) and the rules under that section.

Item 5. Initial or final filings.

a. Is this the first filing on this form by the Registrant? [Y/N]

b. Is this the last filing on this form by the Registrant? [Y/N]

Instruction. Respond "yes" to Item 5(b) only if the Registrant has filed an application to deregister on Form N-8F or otherwise.

Item 6. Family of investment companies.

a. Is the Registrant part of a family of investment companies? [Y/N]

i. Full name of family of investment companies: ____

Instruction. "Family of investment companies" means, except for insurance company separate accounts, any two or more registered investment companies that (i) share the same investment adviser or principal underwriter; and (ii) hold themselves out to investors as related companies for purposes of investment and investor services. In responding to this item, all Registrants in the family of investment companies should report the name of the family of investment companies identically.

Insurance company separate accounts that may not hold themselves out to investors as related companies (products) for purposes of investment and investor services should consider themselves part of the same family if the operational or accounting or control systems under which these entities function are substantially similar.

Item 7. Organization. Indicate the classification of the Registrant by checking the applicable item below.

a. Open end management investment company registered under the Act on Form N-1A: ____

i. Total number of Series of the Registrant: ____

ii. If a Series of the Registrant was terminated during the reporting period, provide the following information:

1. Name of the Series: ____

2. Series identification number: ____

3. Date of termination (month/year): ____

b. Closed-end management investment company registered under the Act on Form N-2: ____

c. Separate account offering variable annuity contracts which is registered under the Act as a management investment company on Form N-3: ____

   i. Registrants that indicate they are a management investment company registered under the Act on Form N-3, should respond to Item 74 through Item 77 of this Form in addition to the items discussed in General Instruction A of this Form.

d. Separate account offering variable annuity contracts which is registered under the Act as a unit investment trust on Form N-4: ____

e. Small business investment company registered under the Act on Form N-5: ____

f. Separate account offering variable life insurance contracts which is registered under the Act as a unit investment trust on Form N-6: ____

g. Unit investment trust registered under the Act on Form N-8B-2: ____

Instruction. For Item 7.a.i, the Registrant should include all Series that have been established by the Registrant and have shares outstanding (other than shares issued in connection with an initial investment to satisfy section 14(a) of the Act).

Item 8. Securities Act registration. Is the Registrant the issuer of a class of securities registered under the Securities Act of 1933 ("Securities Act")? [Y/N]

Item 9. Directors. Provide for each director the information below (management investment companies only):

a. Full name: ____

b. Is the director an "interested person" of the Registrant as that term is defined in section 2(a)(19) of the Act (15 U.S.C. 80a-2(a)(19))? [Y/N]

c. Investment Company Act file number of any other registered investment company for which the director also serves as a director (*e.g.*, 811-): ____

Item 10. Chief compliance officer. Provide the information requested below about the person serving as chief compliance officer of the Registrant for purposes of rule 38a-1 (17 CFR 270.38a-1):

a. Full name: ____

b. CRD number, if any: ____

c. Street: ____

d. City: ____

e. State, if applicable: ____

f. Foreign country, if applicable: ____

g. Zip code and zip code extension, or foreign postal code: ____

h. Telephone number (including country code if foreign): ____

i. Has the chief compliance officer changed since the last filing? [Y/N]

j. If the chief compliance officer is compensated or employed by any person other than the Registrant, or an affiliated person of the Registrant, for providing chief compliance officer services, provide:

   i. Name of the person: ____

   ii. Person's Employer Identification Number: ____

Item 11. Matters for security holder vote. Were any matters submitted by the Registrant for its security holders' vote during the reporting period? [Y/N]

Item 12. Legal proceedings.

a. Have there been any material legal proceedings, other than routine litigation incidental to the business, to which the Registrant or any of its subsidiaries was a party or of which any of their property was the subject during the reporting period? [Y/N] If yes, include the attachment required by Item 79.a.i.

b. Has any proceeding previously reported been terminated? [Y/N] If yes, include the attachment required by Item 79.a.i.

Instruction. For purposes of this Item, the following proceedings should be described: (1) any bankruptcy, receivership or similar proceeding with respect to the Registrant or any of its significant subsidiaries; (2) any proceeding to which any director, officer or other affiliated person of the Registrant is a party adverse to the Registrant or any of its subsidiaries; and (3) any proceeding involving the revocation or suspension of the right of the Registrant to sell securities.

Item 13. Fidelity bond and insurance (management investment companies only).

a. Were any claims with respect to the Registrant filed under a fidelity bond (including, but not limited to, the fidelity insuring agreement of the bond) during the reporting period? [Y/N]

   i. If yes, enter the aggregate dollar amount of claims filed: ____

Item 14. Directors and officers/errors and omissions insurance (management investment companies only).

a. Are the Registrant's officers or directors covered in their capacities as officers or directors under any directors and officers/errors and omissions insurance policy owned by the Registrant or anyone else? [Y/N]

i. If yes, were any claims filed under the policy during the reporting period with respect to the Registrant? [Y/N]

Item 15. Provision of financial support. Did an affiliated person, promoter, or principal underwriter of the Registrant, or an affiliated person of such a person, provide any form of financial support to the Registrant during the reporting period? [Y/N] If yes, include the attachment required by Item 79.a.ii, unless the Registrant is a Money Market Fund.

Instruction. For purposes of this Item, a provision of financial support includes any (1) capital contribution, (2) purchase of a security from a Money Market Fund in reliance on rule 17a-9 under the Act (17 CFR 270.17a-9), (3) purchase of any defaulted or devalued security at fair value, (4) execution of letter of credit or letter of indemnity, (5) capital support agreement (whether or not the Registrant ultimately received support), (6) performance guarantee, or (7) other similar action reasonably intended to increase or stabilize the value or liquidity of the Registrant's portfolio. Provision of financial support does not include any (1) routine waiver of fees or reimbursement of Registrant's expenses, (2) routine inter-fund lending, (3) routine inter-fund purchases of Registrant's shares, or (4) action that would qualify as financial support as defined above, that the board of directors has otherwise determined not to be reasonably intended to increase or stabilize the value or liquidity of the Registrant's portfolio.

Item 16. Exemptive orders.

a. During the reporting period, did the Registrant rely on any orders from the Commission granting an exemption from one or more provisions of the Act, Securities Act or Exchange Act? [Y/N]

i. If yes, provide below the release number for each order: ____

Item 17. Principal underwriters.

a. Provide the information requested below about each principal underwriter:

i. Full name: ____

ii. SEC file number (e.g., 8-): ____

iii. CRD number: ____

iv. LEI, if any: ____

v. State, if applicable: ____

vi. Foreign country, if applicable: ____

vii. Is the principal underwriter an affiliated person of the Registrant, or its investment adviser(s) or depositor? [Y/N]

b. Have any principal underwriters been hired or terminated during the reporting period? [Y/N]

Item 18. Independent public accountant. Provide the following information about the independent public accountant:

a. Full name: ____

b. PCAOB number: ____

c. LEI, if any: ____

d. State, if applicable: ____

e. Foreign country, if applicable: ____

f. Has the independent public accountant changed since the last filing? [Y/N] If yes, include the attachment required by Item 79.a.iii.

Item 19. Report on internal control (management investment companies only). For the reporting period, did an independent public accountant's report on internal control find any material weaknesses? [Y/N]

Instruction. Small business investment companies are not required to respond to this item.

Item 20. Audit opinion. For the reporting period, did an independent public accountant issue an opinion other than an unqualified opinion with respect to its audit of the Registrant's financial statements? [Y/N]

Item 21. Change in valuation methods. Have there been material changes in the method of valuation (e.g., change from use of bid price to mid price for fixed income securities or change in trigger threshold for use of fair value factors on international equity securities) of the Registrant's assets during the reporting period? [Y/N] If yes, provide the following:

a. Date of change: ___

b. Explanation of the change: ____

c. Type of investments involved: ____

d. Statutory or regulatory basis, if any: ____

e. Fund(s) involved:

i. Fund name: _____

ii. Series identification number: ____

Instruction. Responses to this item need not include changes to valuation techniques used for individual securities (e.g., changing from market approach to income approach for a private equity security).

Item 22. Change in accounting principles and practices. Have there been any changes in accounting principles or practices, or any change in the method of applying any such accounting principles or practices, which will materially affect the financial statements filed or to be filed for the current year with the Commission and which has not been previously reported? [Y/N] If yes, include the attachment required by Item 79.a.v.

Item 23. Net asset value error corrections (open-end management investment companies only).

a. During the reporting period, did the Registrant make any payments to shareholders or reprocess shareholder accounts as a result of an error in calculating the Registrant's net asset value (or net asset value per share)? [Y/N]

Item 24. Rule 19a-1 notice (management investment companies only). During the reporting period, did the Registrant pay any dividend or make any distribution in the nature of a dividend payment, required to be accompanied by a written statement pursuant to section 19(a) of the Act (15 U.S.C. 80a-19(a)) and rule 19a-1 thereunder (17 CFR 270.19a-1)? [Y/N]

Part C: Additional Questions for Management Investment Companies

Item 25. Background information.

a. Full name of the Fund: ____

b. Series identification number, if any: ____

c. LEI: ____

d. Is this the first filing on this form by the Fund? [Y/N]

Item 26. Classes of open-end management investment companies.

a. How many Classes of shares of the Fund (if any) are authorized? ____

b. How many new Classes of shares of the Fund were added during the reporting period? ____

c. How many Classes of shares of the Fund were terminated during the reporting period? ___

d. For each Class with shares outstanding, provide the information requested below:

i. Full name of Class: ____

ii. Class identification number, if any: ____

iii. Ticker symbol, if any: ____

Item 27. Type of fund. Indicate if the Fund is any one of the types listed below. Check all that apply.

a. Exchange-Traded Fund or Exchange-Traded Managed Fund or offers a Class that itself is an Exchange-Traded Fund or Exchange-Traded Managed Fund:

i. Exchange-Traded Fund: ____

ii. Exchange-Traded Managed Fund: ____

b. Index Fund: ____

i. If the Fund is an index fund, provide the annualized difference between the Fund's total return during the reporting period and the index's return during the reporting period (*i.e.*, the Fund's total return less the index's return):

1. Before Fund fees and expenses: ____

2. After Fund fees and expenses (*i.e.*, net asset value): ____

ii. If the Fund is an index fund, provide the annualized standard deviation of the daily difference between the Fund's total return and the index's return during the reporting period:

1. Before Fund fees and expenses: ____

2. After Fund fees and expenses (*i.e.*, net asset value): ____

c. Seeks to achieve performance results that are a multiple of a benchmark, the inverse of a benchmark, or a multiple of the inverse of a benchmark: ____

d. Interval Fund: ____

e. Fund of Funds: ____

f. Master-Feeder Fund: ____

i. If the Registrant is a master fund, then provide the information requested below with respect to each feeder fund:

1. Full name: ____

2. For registered feeder funds:

a. Investment Company Act file number (*e.g.*, 811-): ____

b. Series identification number, if any: ____

c. LEI of feeder fund: ____

3. For unregistered feeder funds:

a. SEC file number of the feeder fund's investment adviser (*e.g.*, 801-): ____

b. LEI of feeder fund, if any: ___

ii. If the Registrant is a feeder fund, then provide the information requested below with respect to a master fund registered under the Act:

1. Full name: ____

2. Investment Company Act file number (*e.g.*, 811-): ____

3. SEC file number of the master fund's investment adviser (*e.g.*, 801-): ___

4. LEI: ___

g. Money Market Fund: ____

h. Target Date Fund: ___

i. Underlying fund to a variable annuity or variable life insurance contract: ____

Instructions.

1. "Fund of Funds" means a fund that acquires securities issued by any other investment company in excess of the amounts permitted under paragraph (A) of section 12(d)(1) of the Act (15 U.S.C. 80a-12(d)(1)(A)).

2. "Index Fund" means an investment company, including an Exchange-Traded Fund, that seeks to track the performance of a specified index.

3. "Interval Fund" means a closed-end management investment company that makes periodic repurchases of its shares pursuant to rule 23c-3 under the Act (17 CFR 270.23c-3).

4. "Master-Feeder Fund" means a two-tiered arrangement in which one or more funds (each a feeder fund) holds shares of a single Fund (the master fund) in accordance with section 12(d)(1)(E) of the Act (15 U.S.C. 80a-12(d)(1)(E)).

5. "Target Date Fund" means an investment company that has an investment objective or strategy of providing varying degrees of long-term appreciation and capital preservation through a mix of equity and fixed income exposures that changes over time based on an investor's age, target retirement date, or life expectancy.

Item 28. Diversification. Does the Fund seek to operate as a "non-diversified company" as such term is defined in section 5(b)(2) of the Act (15 U.S.C. 80a-5(b)(2))? [Y/N]

Item 29. Investments in certain foreign corporations.

a. Does the fund invest in a controlled foreign corporation for the purpose of investing in certain types of instruments such as, but not limited to, commodities? [Y/N]

b. If yes, provide the following information:

   i. Full name of subsidiary: ___

   ii. LEI of subsidiary, if any: ___

Instruction. "Controlled foreign corporation" has the meaning provided in section 957 of the Internal Revenue Code [26 U.S.C. 957].

Item 30. Securities lending.

a. Is the Fund authorized to engage in securities lending transactions? [Y/N]

b. Did the Fund lend any of its securities during the reporting period? [Y/N]

   i. If yes, has any borrower of fund securities defaulted during the reporting period? [Y/N]

c. Provide the information requested below about each securities lending agent, if any, retained by the Fund:

   i. Full name of securities lending agent: ____

   ii. LEI, if any: ____

   iii. Is the securities lending agent an affiliated person, or an affiliated person of an affiliated person, of the Fund? [Y/N]

   iv. Does the securities lending agent or any other entity indemnify the fund against borrower default on loans administered by this agent? [Y/N]

   v. If the entity providing the indemnification is not the securities lending agent, provide the following information:

      1. Name of person providing indemnification: ____

      2. LEI, if any, of person providing indemnification: ____

d. If a person providing cash collateral management services to the Fund in connection with the Fund's securities lending activities does not also serve as securities lending agent, provide the following information about each cash collateral manager:

i. Full name of cash collateral manager: ____

ii. LEI, if any: ____

iii. Is the cash collateral manager an affiliated person, or an affiliated person of an affiliated person, of a securities lending agent retained by the Fund? [Y/N]

iv. Is the cash collateral manager an affiliated person, or an affiliated person of an affiliated person, of the Fund? [Y/N]

e. Types of payments made to one or more securities lending agents and cash collateral managers (check all that apply):

i. revenue sharing split: ____

ii. non-revenue sharing split (other than administrative fee): ____

iii. administrative fee: ____

iv. cash collateral reinvestment fee: ____

v. indemnification fee: ____

vi. other: _____. If other, describe: _____.

Item 31. Reliance on certain rules. Did the Fund rely on any of the following rules under the Act during the reporting period? (check all that apply)

a. Rule 10f-3 (17 CFR 270.10f-3): ____

b. Rule 12d1-1 (17 CFR 270.12d1-1): ____

c. Rule 15a-4 (17 CFR 270.15a-4): ____

d. Rule 17a-6 (17 CFR 270.17a-6): ____

e. Rule 17a-7 (17 CFR 270.17a-7): ____

f. Rule 17a-8 (17 CFR 270.17a-8): ____

g. Rule 17e-1 (17 CFR 270.17e-1): ____

h. Rule 22d-1 (17 CFR 270.22d-1): ____

i. Rule 23c-1 (17 CFR 270.23c-1): ____

j. Rule 32a-4 (17 CFR 270.32a-4): ____

Item 32. Expense limitations.

a. Did the Fund have an expense limitation arrangement in place during the reporting period? [Y/N]

b. Were any expenses of the Fund reduced or waived pursuant to an expense limitation arrangement during the reporting period? [Y/N]

c. Are the fees waived subject to recoupment? [Y/N]

d. Were any expenses previously waived recouped during the period? [Y/N]

Instruction. Provide information concerning any direct or indirect limitations, waivers or reductions, on the level of expenses incurred by the fund during the reporting period. A limitation, for example, may be applied indirectly (such as when an adviser agrees to accept a reduced fee pursuant to a voluntary fee waiver) or it may apply only for a temporary period such as for a new fund in its start-up phase.

Item 33. Investment advisers.

a. Provide the following information about each investment adviser (other than a sub-adviser) of the Fund:

   i. Full name: ____

   ii. SEC file number (*e.g.*, 801-): ____

   iii. CRD number: _____

   iv. LEI, if any: _____

   v. State, if applicable: ____

   vi. Foreign country, if applicable: ____

   vii. Was the investment adviser hired during the reporting period? [Y/N]

      1. If the investment adviser was hired during the reporting period, indicate the investment adviser's start date: ____

b. If an investment adviser (other than a sub-adviser) to the Fund was terminated during the reporting period, provide the following with respect to each investment adviser:

   i. Full name: ____

   ii. SEC file number (*e.g.*, 801-): ____

   iii. CRD number: ____

   iv. LEI, if any: ____

   v. State, if applicable: ____

   vi. Foreign country, if applicable: ____

   vii. Termination date: ____

c. For each sub-adviser to the Fund, provide the information requested:

   i. Full name: ____

   ii. SEC file number (*e.g.*, 801-), if applicable: ____

iii. CRD number: _____

iv. LEI, if any: _____

v. State, if applicable: ____

vi. Foreign country, if applicable: ____

vii. Is the sub-adviser an affiliated person of the Fund's investment adviser(s)? [Y/N]

viii. Was the sub-adviser hired during the reporting period? [Y/N]

1. If the sub-adviser was hired during the reporting period, indicate the sub-adviser's start date: ____

d. If a sub-adviser was terminated during the reporting period, provide the following with respect to such sub-adviser:

i. Full name: ____

ii. SEC file number (*e.g.*, 801-): ____

iii. CRD number: ____

iv. LEI, if any: ____

v. State, if applicable: ____

vi. Foreign country, if applicable: ____

vii. Termination date: ____

Item 34. Transfer agents.

a. Provide the following information about each person providing transfer agency services to the Fund:

i. Full name: ____

ii. SEC file number (e.g., 84- or 85-): ____

iii. LEI, if any: ____

iv. State, if applicable: ____

v. Foreign country, if applicable: ____

vi. Is the transfer agent an affiliated person of the Fund or its investment adviser(s)? [Y/N]

b. Has a transfer agent been hired or terminated during the reporting period? [Y/N]

Item 35. Pricing services. Provide the following information about each person that provided pricing services to the Fund during the reporting period:

a. Full name: ____

b. LEI, if any, or provide and describe other identifying number: ____

c. State, if applicable: _____

d. Foreign country, if applicable: ____

e. Is the pricing service an affiliated person of the Fund or its investment adviser(s)? [Y/N]

f. Was the pricing service first retained by the Fund to provide pricing services during the current reporting period? [Y/N]

Item 36. Pricing services no longer retained. Provide the following information about each person that formerly provided pricing services to the Fund during the current or immediately prior reporting period that no longer provides such services to the Fund:

a. Full name: ____

b. LEI, if any, or provide and describe other identifying number: ____

c. State, if applicable: _____

d. Foreign country, if applicable: ____

e. Termination date: ____

Item 37. Custodians.

a. Provide the following information about each person that provided custodial services to the Fund during the reporting period:

i. Full name: ____

ii. LEI, if any: ____

iii. State, if applicable: ____

iv. Foreign country, if applicable: ____

v. Is the custodian an affiliated person of the Fund or its investment adviser(s)? [Y/N]

vi. Is the custodian a sub-custodian? [Y/N]

vii. With respect to the custodian, check below to indicate the type of custody:

1. Bank — section 17(f)(1) (15 U.S.C. 80a-17(f)(1)): ____

2. Member national securities exchange — rule 17f-1 (17 CFR 270.17f-1): ____
3. Self — rule 17f-2 (17 CFR 270.17f-2): ____
4. Securities depository — rule 17f-4 (17 CFR 270.17f-4): ____
5. Foreign custodian — rule 17f-5 (17 CFR 270.17f-5): ____
6. Futures commission merchants and commodity clearing organizations — rule 17f-6 (17 CFR 270.17f-6): ____
7. Foreign securities depository — rule 17f-7 (17 CFR 270.17f-7): ____
8. Insurance company sponsor — rule 26a-2 (17 CFR 270.26a-2): ____
9. Other: ____. If other, describe: _____.

b. Has a custodian been hired or terminated during the reporting period? [Y/N]

Item 38. Shareholder servicing agents.

a. Provide the following information about each shareholder servicing agent of the Fund:

i. Full name: ____

ii. LEI, if any, or provide and describe other identifying number: ____

iii. State, if applicable: _____

iv. Foreign country, if applicable: ____

v. Is the shareholder servicing agent an affiliated person of the Fund or its investment adviser(s)? [Y/N]

b. Has a shareholder servicing agent been hired or terminated during the reporting period? [Y/N]

Item 39. Third-party administrators.

a. Provide the following information about each third-party administrator of the Fund:

i. Full name: ____

ii. LEI, if any, or provide and describe other identifying number: ____

iii. State, if applicable: _____

iv. Foreign country, if applicable: ___

v. Is the third-party administrator an affiliated person of the Fund or its investment adviser(s)? [Y/N]

b. Has a third-party administrator been hired or terminated during the reporting period? [Y/N]

Item 40. Affiliated broker-dealers. Provide the following information about each affiliated broker-dealer:

a. Full name: ____

b. SEC file number: ____

c. CRD number: ____

d. LEI, if any: ____

e. State, if applicable: _____

f. Foreign country, if applicable: ____

g. Total commissions paid to the affiliated broker-dealer for the reporting period: ____

Item 41. Brokers.

a. For each of the ten brokers that received the largest dollar amount of brokerage commissions (excluding dealer concessions in underwritings) by virtue of direct or indirect participation in the Fund's portfolio transactions, provide the information below:

i. Full name of broker: ____

ii. SEC file number: ____

iii. CRD number: ____

iv. LEI, if any: ____

v. State, if applicable: _____

vi. Foreign country, if applicable: ____

vii. Gross commissions paid by the Fund for the reporting period: ____

b. Aggregate brokerage commissions paid by Fund during the reporting period: ____

Item 42. Principal transactions.

a. For each of the ten entities acting as principals with which the Fund did the largest dollar amount of principal transactions (include all short-term obligations, and U.S. government and tax-free securities) in both the secondary market and in underwritten offerings, provide the information below:

i. Full name of dealer: ____

ii. SEC file number: ____

iii. CRD number: ____

iv. LEI, if any: ____

v. State, if applicable: _____

vi. Foreign country, if applicable: ____

vii. Total value of purchases and sales (excluding maturing securities) with Fund: ____

b. Aggregate value of principal purchase/sale transactions of Fund during the reporting period: ____

Instructions to Item 41 and Item 42.

To help Registrants distinguish between agency and principal transactions, and to promote consistent reporting of the information required by these items, the following criteria should be used:

1. If a security is purchased or sold in a transaction for which the confirmation specifies the amount of the commission to be paid by the Registrant, the transaction should be considered an agency transaction and included in determining the answers to Item 41.

2. If a security is purchased or sold in a transaction for which the confirmation specifies only the net amount to be paid or received by the Registrant and such net amount is equal to the market value of the security at the time of the transaction, the transaction should be considered a principal transaction and included in determining the amounts in Item 42.

3. If a security is purchased by the Registrant in an underwritten offering, the acquisition should be considered a principal transaction and included in answering Item 42 even though the Registrant has knowledge of the amount the underwriters are receiving from the issuer.

4. If a security is sold by the Registrant in a tender offer, the sale should be considered a principal transaction and included in answering Item 42 even though the Registrant has knowledge of the amount the offeror is paying to soliciting brokers or dealers.

5. If a security is purchased directly from the issuer (such as a bank CD), the purchase should be considered a principal transaction and included in answering Item 42.

6. The value of called or maturing securities should not be counted in either agency or principal transactions and should not be included in determining the amounts shown in Item 41 and Item 42. This means that the acquisition of a security may be included, but it is possible that its disposition may not be included. Disposition of a repurchase agreement at its expiration date should not be included.

7. The purchase or sales of securities in transactions not described in paragraphs (1) through (6) above should be evaluated by the Fund based upon the guidelines established in those paragraphs and classified accordingly. The agents considered in Item 41 may be persons or companies not registered under the Exchange Act as securities brokers. The persons or companies from whom the investment company purchased or to whom it sold portfolio instruments on a principal basis may be persons or entities not registered under the Exchange Act as securities dealers.

Item 43. Payments for brokerage and research. During the reporting period, did the Fund pay commissions to broker-dealers for "brokerage and research services" within the meaning of section 28(e) of the Exchange Act (15 U.S.C. 78bb)? [Y/N]

Part D: Additional Questions for Closed-End Management Investment Companies and Small Business Investment Companies

Item 44. Securities issued by Registrant. Indicate by checking below which of the following securities have been issued by the Registrant. Indicate all that apply.

a. Common stock: ____
   i. Title of class: ____
   ii. Exchange where listed: ____
   iii. Ticker symbol: ____

b. Preferred stock: ____
   1. Title of class: ____
   2. Exchange where listed: ____
   3. Ticker symbol: ____

c. Warrants: ____
   i. Title of class: ____
   ii. Exchange where listed: ____
   iii. Ticker symbol: ____

d. Convertible securities: ____
   i. Title of class: ____
   ii. Exchange where listed: ____
   iii. Ticker symbol: ____

e. Bonds: ____

   i. Title of class: ____

   ii. Exchange where listed: ____

   iii. Ticker symbol: ____

f. Other: ____. If other, describe: _____.

   i. Title of class: ____

   ii. Exchange where listed: ____

   iii. Ticker symbol: ____

Instruction. For any security issued by the Fund that is not listed on a securities exchange but that has a ticker symbol, provide that ticker symbol.

Item 45. Rights offerings.

a. Did the Fund make a rights offering with respect to any type of security during the reporting period? [Y/N] If yes, answer the following as to each rights offering made by the Fund:

b. Type of security.

   i. Common stock: ____

   ii. Preferred stock: ____

   iii. Warrants: ____

   iv. Convertible securities: ____

   v. Bonds: ____

   vi. Other: ____. If other, describe: _____.

c. Percentage of participation in primary rights offering: ___

Instruction. For Item 45.c, the "percentage of participation in primary rights offering" is calculated as the percentage of subscriptions exercised during the primary rights offering relative to the amount of securities available for primary subscription.

Item 46. Secondary offerings.

a. Did the Fund make a secondary offering during the reporting period? [Y/N]

b. If yes, indicate by checking below the type(s) of security. Indicate all that apply.

   i. Common stock: ____

   ii. Preferred stock: ____

   iii. Warrants: ____

iv. Convertible security: ____

v. Bonds: ____

vi. Other: ____. If other, describe: _____.

Item 47. Repurchases.

a. Did the Fund repurchase any outstanding securities issued by the Fund during the reporting period? [Y/N]

b. If yes, indicate by checking below the type(s) of security. Indicate all that apply:

i. Common stock: ____

ii. Preferred stock: ___

iii. Warrants: ____

iv. Convertible securities: ____

v. Bonds: ____

vi. Other: ____. If other, describe: _____.

Item 48. Default on long-term debt.

a. Were any issues of the Fund's long-term debt in default at the close of the reporting period with respect to the payment of principal, interest, or amortization? [Y/N] If yes, provide the following:

i. Nature of default: ____

ii. Date of default: ____

iii. Amount of default per $1,000 face amount: ____

iv. Total amount of default: ____

Instruction. The term "long-term debt" means debt with a period of time from date of initial issuance to maturity of one year or greater.

Item 49. Dividends in arrears.

a. Were any accumulated dividends in arrears on securities issued by the Fund at the close of the reporting period? [Y/N] If yes, provide the following:

i. Title of issue: ____

ii. Amount per share in arrears: ____

Instruction. The term "dividends in arrears" means dividends that have not been declared by the board of directors or other governing body of the Fund at the end of each relevant dividend period set forth in the constituent instruments establishing the rights of the stockholders.

Item 50. Modification of securities. Have the terms of any constituent instruments defining the rights of the holders of any class of the Registrant's securities been materially modified? [Y/N] If yes, provide the attachment required by Item 79.b.ii.

Item 51. Management fee (closed-end companies only). Provide the Fund's advisory fee as of the end of the reporting period as percentage of net assets: ____

Instruction. Base the percentage on amounts incurred during the reporting period.

Item 52. Net annual operating expenses. Provide the Fund's net annual operating expenses as of the end of the reporting period (net of any waivers or reimbursements) as a percentage of net assets: ____

Item 53. Market price. Market price per share at end of reporting period: ____

Instruction. Respond to this item with respect to common stock issued by the Registrant only.

Item 54. Net asset value. Net asset value per share at end of reporting period: ____

Instruction. Respond to this item with respect to common stock issued by the Registrant only.

Item 55. Investment advisers (small business investment companies only).

a. Provide the following information about each investment adviser (other than a sub-adviser) of the Fund:

   i. Full name: ____

   ii. SEC file number (*e.g.*, 801-): ____

   iii. CRD number: _____

   iv. LEI, if any: _____

   v. State, if applicable: _____

   vi. Foreign country, if applicable: ____

   vii. Was the investment adviser hired during the reporting period? [Y/N]

      1. If the investment adviser was hired during the reporting period, indicate the investment adviser's start date: ____

b. If an investment adviser (other than a sub-adviser) to the Fund was terminated during the reporting period, provide the following with respect to each investment adviser:

   i. Full name: ____

   ii. SEC file number (*e.g.*, 801-): ____

iii. CRD number: ____

iv. LEI, if any: ____

v. State, if applicable: _____

vi. Foreign country, if applicable: ____

vii. Termination date: ____

c. For each sub-adviser to the Fund, provide the information requested:

i. Full name: ____

ii. SEC file number (*e.g.*, 801-), if applicable: ____

iii. CRD number: _____

iv. LEI, if any: _____

v. State, if applicable: _____

vi. Foreign country, if applicable: ____

vii. Is the sub-adviser an affiliated person of the Fund's investment adviser(s)? [Y/N]

viii. Was the sub-adviser hired during the reporting period? [Y/N]

1. If the sub-adviser was hired during the reporting period, indicate the sub-adviser's start date: ____

d. If a sub-adviser was terminated during the reporting period, provide the following with respect to such sub-adviser:

i. Full name: ____

ii. SEC file number (*e.g.*, 801-): ____

iii. CRD number: ____

iv. LEI, if any: ____

v. State, if applicable: _____

vi. Foreign country, if applicable: ____

vii. Termination date: ____

Item 56. Transfer agents (small business investment companies only).

a. Provide the following information about each person providing transfer agency services to the Fund:

i. Full name: ____

ii. SEC file number (e.g., 84- or 85-): ____

iii. LEI, if any: ____

iv. State, if applicable: ____

v. Foreign country, if applicable: ____

vi. Is the transfer agent an affiliated person of the Fund or its investment adviser(s)? [Y/N]

b. Has a transfer agent been hired or terminated during the reporting period? [Y/N]

Item 57. Custodians (small business investment companies only).

a. Provide the following information about each person that provided custodial services to the Fund during the reporting period:

i. Full name: ____

ii. LEI, if any: ____

iii. State, if applicable: ____

iv. Foreign country, if applicable: ____

v. Is the custodian an affiliated person of the Fund or its investment adviser(s)? [Y/N]

vi. Is the custodian a sub-custodian? [Y/N]

vii. With respect to the custodian, check below to indicate the type of custody:

1. Bank — section 17(f)(1) (15 U.S.C. 80a-17(f)(1)): ____

2. Member national securities exchange — rule 17f-1 (17 CFR 270.17f-1): ____

3. Self — rule 17f-2 (17 CFR 270.17f-2): ____

4. Securities depository — rule 17f-4 (17 CFR 270.17f-4): ____

5. Foreign custodian — rule 17f-5 (17 CFR 270.17f-5): ____

6. Futures commission merchants and commodity clearing organizations — rule 17f-6 (17 CFR 270.17f-6): ____

7. Foreign securities depository — rule 17f-7 (17 CFR 270.17f-7): ____

8. Insurance company sponsor — rule 26a-2 (17 CFR 270.26a-2): ____

9. Other: ____. If other, describe: _____.

b. Has a custodian been hired or terminated during the reporting period? [Y/N]

Part E: Additional Questions for Exchange-Traded Funds and Exchange-Traded Managed Funds

Item 58. Exchange where listed. Provide the securities exchange on which the Fund is listed: ____

Item 59. Authorized participants. For each authorized participant of the Fund, provide the following information:

a. Full name: ____

b. SEC file number: ____

c. CRD number: ____

d. LEI, if any: ____

e. The dollar value of the Fund shares the authorized participant purchased from the Fund during the reporting period: ____

f. The dollar value of the Fund shares the authorized participant redeemed during the reporting period: ____

Instruction. The term "authorized participant" means a broker-dealer that is also a member of a clearing agency registered with the Commission, and which has a written agreement with the Exchange-Traded Fund or Exchange-Traded Managed Fund or one of its designated service providers that allows it place orders to purchase or redeem creation units of the Exchange-Traded Fund or Exchange-Traded Managed Fund.

Item 60. Creation units. Number of Fund shares required to form a creation unit as of the last business day of the reporting period: ____

a. Total value of creation units that were purchased primarily with in-kind securities during the reporting period: ____

b. Total value of creation units that were purchased primarily with cash during the reporting period: ____

c. Total value of creation units that were redeemed primarily with in-kind securities during the reporting period: ____

d. Total value of creation units that were redeemed primarily with cash during the reporting period: ____

e. For the last creation unit purchased during the reporting period of which some or all was purchased on an in-kind basis, provide:

i. Any applicable "fixed" transaction fee expressed as dollars per creation unit: $___

ii. Any applicable "fixed" transaction fee expressed as dollars per order of one or more creation units: $___

iii. Any applicable "variable" transaction fee expressed as a percentage of the value of the in-kind portion of the creation unit: ___%

iv. Any applicable "variable" transaction fee expressed as dollars per creation unit: $___

f. For the last creation unit purchased during the reporting period of which some or all was purchased on a cash basis, provide:

i. Any applicable "fixed" transaction fee expressed as dollars per creation unit: $___

ii. Any applicable "fixed" transaction fee expressed as dollars per order of one or more creation units: $___

iii. Any applicable "variable" transaction fee expressed as a percentage of the cash portion of the creation unit: ___%

iv. Any applicable "variable" transaction fee expressed as dollars per creation unit: $___

g. For the last creation unit redeemed during the reporting period of which some or all was redeemed on an in-kind basis, provide:

i. Any applicable "fixed" transaction fee expressed as dollars per creation unit: $___

ii. Any applicable "fixed" transaction fee expressed as dollars per order of one or more creation units: $___

iii. Any applicable "variable" transaction fee expressed as a percentage of the value of the in-kind portion of the creation unit: ___%

iv. Any applicable "variable" transaction fee expressed as dollars per creation unit: $___

h. For the last creation unit redeemed during the reporting period of which some or all was redeemed on a cash basis, provide:

i. Any applicable "fixed" transaction fee expressed as dollars per creation unit: $___

ii. Any applicable "fixed" transaction fee expressed as dollars per order of one or more creation units: $___

iii. Any applicable "variable" transaction fee expressed as a percentage of the value of the cash portion of the creation unit: ___%

iv. Any applicable "variable" transaction fee expressed as dollars per creation unit: $___

Instructions.

8. The term "creation unit" means a specified number of Exchange-Traded Fund or Exchange-Traded Managed Fund shares that the fund will issue to (or redeem from) an authorized participant in exchange for the deposit (or delivery) of specified securities, cash, and other assets.

9. For this item, the term "primarily" means greater than 50%.

Item 61. Benchmark return difference (unit investment trusts only).

a. If the Fund is an Index Fund as defined in Item 27 of this Form, provide the following information:

i. The annualized difference between the Fund's total return during the reporting period and the index's return during the reporting period (i.e., the Fund's total return less the index's return):

1. Before Fund fees and expenses: ____

2. After Fund fees and expenses (*i.e.*, net asset value): ____

ii. The annualized standard deviation of the daily difference between the Fund's total return and the index's return during the reporting period:

1. Before Fund fees and expenses: ____

2. After Fund fees and expenses (*i.e.*, net asset value): ____

Part F: Additional Questions for Unit Investment Trusts

Item 62. Depositor. Provide the following information about the depositor:

a. Full name: ____

b. CRD number, if any: ____

c. LEI, if any: ____

d. State, if applicable: ____

e. Foreign country, if applicable: ____

f. Full name of ultimate parent of depositor: ____

Item 63. Third-party administrators.

a. Provide the following information about each third-party administrator of the Fund:

i. Full name: ____

ii. LEI, if any, or provide and describe other identifying number: ____

iii. State, if applicable: ____

iv. Foreign country, if applicable: ____

v. Is the third-party administrator an affiliated person of the Fund or depositor? [Y/N]

b. Has a third-party administrator been hired or terminated during the reporting period? [Y/N]

Item 64. Insurance company separate accounts. Is the Registrant a separate account of an insurance company? [Y/N]

Instruction. If the answer to Item 64 is yes, respond to Item 73 through Item 78. If the answer to Item 64 is no, respond to Item 65 through Item 72, and Item 78.

Item 65. Sponsor. Provide the following information about the sponsor:

a. Full name: ____

b. CRD number, if any: ____

c. LEI, if any: ____

d. State, if applicable: ____

e. Foreign country, if applicable: ____

Item 66. Trustees. Provide the following information about each trustee:

a. Full name: ____

b. State, if applicable: ____

c. Foreign country, if applicable: ____

Item 67. Securities Act registration. Provide the number of series existing at the end of the reporting period that had outstanding securities registered under the Securities Act: ____

Item 68. New series.

a. Number of new series for which registration statements under the Securities Act became effective during the reporting period: ____

b. Total aggregate value of the portfolio securities on the date of deposit for the new series: ____

Item 69. Series with a current prospectus. Number of series for which a current prospectus was in existence at the end of the reporting period: _____

Item 70. Number of existing series for which additional units were registered under the Securities Act.

a. Number of existing series for which additional units were registered under the Securities Act during the reporting period: ____

b. Total value of additional units: ____

Item 71. Value of units placed in portfolios of subsequent series. Total value of units of prior series that were placed in the portfolios of subsequent series during the reporting period (the value of these units is to be measured on the date they were placed in the subsequent series): ____

Item 72. Assets. Provide the total assets of all series of the Registrant combined as of the end of the reporting period: ____

Item 73. Series ID of separate account. Series identification number: ____

Item 74. Number of contracts. For each security that has a contract identification number assigned pursuant to rule 313 of Regulation S-T (17 CFR 232.313), provide the number of individual contracts that are in force at the end of the reporting period: ____

Instruction. In the case of group contracts, each participant certificate should be counted as an individual contract.

Item 75. Information on the security issued through the separate account. For each security that has a contract identification number assigned pursuant to rule 313 of Regulation S-T (17 CFR 232.313), provide the following information as of the end of the reporting period:

a. Full name of the security: ____

b. Contract identification number: ____

c. Total assets attributable to the security: ____

d. Number of contracts sold during the reporting period: ____

e. Gross premiums received during the reporting period: ____

f. Gross premiums received pursuant to section 1035 exchanges: ____

g. Number of contracts affected in connection with premiums paid in pursuant to section 1035 exchanges: ____

h. Amount of contract value redeemed during the reporting period: ____

i. Amount of contract value redeemed pursuant to section 1035 exchanges: ____

j. Number of contracts affected in connection with contract value redeemed pursuant to section 1035 exchanges: ____

Instruction. In the case of group contracts, each participant certificate should be counted as an individual contract.

Item 76. Reliance on rule 6c-7. Did the Registrant rely on rule 6c-7 under the Act (17 CFR 270.6c-7) during the reporting period? [Y/N]

Item 77. Reliance on rule 11a-2. Did the Registrant rely on rule 11a-2 under the Act (17 CFR 270.11a-2) during the reporting period? [Y/N]

Item 78. Divestments under section 13(c) of the Act.

a. If the Registrant has divested itself of securities in accordance with section 13(c) of the Act (15 U.S.C. 80a-13(c)) since the end of the reporting period immediately prior to the current reporting period and before filing of the current report, disclose the information requested below for each such divested security:

   i. Full name of the issuer: ____

   ii. Ticker symbol: ____

   iii. CUSIP number: ____

   iv. Total number of shares or, for debt securities, principal amount divested: ____

   v. Date that the securities were divested: ____

   vi. Name of the statute that added the provision of section 13(c) in accordance with which the securities were divested: ____

b. If the Registrant holds any securities of the issuer on the date of the filing, provide the information requested below:

   i. Ticker symbol: ____

   ii. CUSIP number: ____

   iii. Total number of shares or, for debt securities, principal amount held on the date of the filing: ____

Instructions.

This item may be used by a unit investment trust that divested itself of securities in accordance with section 13(c). A unit investment trust is not required to include disclosure under this item; however, the limitation on civil, criminal, and administrative actions under section 13(c) does not apply with respect to a divestment that is not disclosed under this item.

If a unit investment trust divests itself of securities in accordance with section 13(c) during the period that begins on the fifth business day before the date of filing a report on Form N-CEN and ends on the date of filing, the unit investment trust may disclose the divestment in either the report or an amendment thereto that is filed not later than five business days after the date of filing the report.

For purposes of determining when a divestment should be reported under this item, if a unit investment trust divests its holdings in a particular security in a related series of transactions, the unit investment trust may deem the divestment to occur at the time of the final transaction in the series. In that case, the unit investment trust should report each transaction in the series on a single report on Form N-CEN, but should separately state each date on which securities were divested and the total number of shares or, for debt securities, principal amount divested, on each such date.

Item 78 shall terminate one year after the first date on which all statutory provisions that underlie section 13(c) have terminated.

Part G: Attachments

Item 79. Attachments

a. Attachments applicable to all Registrants. All Registrants shall file the following attachments, as applicable, with the current report. Indicate the attachments filed with the current report by checking the applicable items below:

i. Legal proceedings: ____

ii. Provision of financial support: ____

iii. Change in the Registrant's independent public accountant: ____

iv. Independent public accountant's report on internal control (management investment companies only): ____

v. Change in accounting principles and practices: ____

vi. Information required to be filed pursuant to exemptive orders: ____

vii. Other information required to be included as an attachment pursuant to Commission rules and regulations: ____

Instructions.

10. Item 79.a.i. Legal proceedings.

(a) If the Registrant responded "YES" to Item 12.a., provide a brief description of the proceedings. As part of the description, provide the case or docket number (if any), and the full names of the principal parties to the proceeding.

(b) If the Registrant responded "YES" to Item 12.b., identify the proceeding and give its date of termination.

11. Item 79.a.ii. Provision of financial support. If the Registrant responded "YES" to Item 15, provide the following information (unless the Registrant is a Money Market Fund):

(a) Description of nature of support.

(b) Person providing support.

(c) Brief description of relationship between the person providing support and the Registrant.

(d) Date support provided.

(e) Amount of support.

(f) Security supported (if applicable). Disclose the full name of the issuer, the title of the issue (including coupon or yield, if applicable) and at least two identifiers, if available (*e.g.*, CIK, CUSIP, ISIN, LEI).

(g) Value of security supported on date support was initiated (if applicable).

(h) Brief description of reason for support.

(i) Term of support.

(j) Brief description of any contractual restrictions relating to support.

12. Item 79.a.iii. Change in the Registrant's independent public accountant. If the Registrant responded "YES" to Item 18.f., provide the information called for by Item 4 of Form 8-K under the Exchange Act (17 CFR 249.308). Unless otherwise specified by Item 4, or related to and necessary for a complete understanding of information not previously disclosed, the information should relate to events occurring during the reporting period. Notwithstanding requirements in Item 4 of Form 8-K to file more frequently, Registrants need only file reports on Form N-CEN annually in accordance with the requirements of this form.

13. Item 79.a.iv. Independent public accountant's report on internal control (management investment companies only). Small business investment companies are not required to respond to this item. Each management investment company shall furnish a report of its independent public accountant on the company's system of internal accounting controls. The accountant's report shall be based on the review, study and evaluation of the accounting system, internal accounting controls, and procedures for safeguarding securities made during the audit of the financial statements for the reporting period. The report should disclose any material weaknesses in: (a) the accounting system; (b) system of internal accounting control; or (c) procedures for safeguarding securities which exist as of the end of the Registrant's fiscal year.
The accountant's report shall be furnished as an exhibit to the form and shall: (1) be addressed to the Registrant's shareholders and board of directors; (2) be dated; (3) be signed manually; and (4) indicate the city and state where issued.

    Attachments that include a report that discloses a material weakness should include an indication by the Registrant of any corrective action taken or proposed.

    The fact that an accountant's report is attached to this form shall not be regarded as acknowledging any review of this form by the independent public accountant.

14. Item 79.a.v. Change in accounting principles and practices. If the Registrant responded "YES" to Item 22, provide an attachment that describes the change in accounting principles or practices, or the change in the method of applying any such accounting principles or practices. State the date of the change and the reasons therefor. A letter from the Registrant's independent accountants, approving or otherwise commenting on the change, shall accompany the description.

15. Item 79.a.vi. Information required to be filed pursuant to exemptive orders. File as an attachment any information required to be reported on Form N-CEN or any predecessor form to Form N-CEN (e.g., Form N-SAR) pursuant to exemptive orders issued by the Commission and relied on by the Registrant.

16. Item 79.a.vii. Other information required to be included as an attachment pursuant to Commission rules and regulations. File as an attachment any other information required to be included as an attachment pursuant to Commission rules and regulations.

b. Attachments to be filed by closed-end management investment companies and small business investment companies. Registrants shall file the following attachments, as applicable, with the current report. Indicate the attachments filed with the current report by checking the applicable items bellow.

i. Material amendments to organizational documents: ____

ii. Instruments defining the rights of the holders of any new or amended class of securities: ____

iii. New or amended investment advisory contracts: ____

iv. Information called for by Item 405 of Regulation S-K: ____

v. Code of ethics (small business investment companies only): ____

Instructions.

17. Item 79.b.i. Material amendments to organizational documents. Provide copies of all material amendments to the Registrant's charters, by-laws, or other similar organizational documents that occurred during the reporting period.

18. Item 79.b.ii. Instruments defining the rights of the holders of any new or amended class of securities. Provide copies of all constituent instruments defining the rights of the holders of any new or amended class of securities for the current reporting period. If the Registrant has issued a new class of securities other than short-term paper, furnish a description of the class called for by the applicable item of Form N-2. If the constituent instruments defining the rights of the holders of any class of the Registrant's securities have been materially modified during the reporting period, give the title of the class involved and state briefly the general effect of the modification upon the rights of the holders of such securities.

19. Item 79.b.iii. New or amended investment advisory contracts. Provide copies of any new or amended investment advisory contracts that became effective during the reporting period.

20. Item 79.b.iv. Information called for by Item 405 of Regulation S-K. Provide the information called for by Item 405 of Regulation S-K concerning failure of certain closed-end management investment company and small business investment company shareholders to file certain ownership reports.

21. Item 79.b.v. Code of ethics (small business investment companies only).

(a) (1) Disclose whether, as of the end of the period covered by the report, the Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Registrant or a third party. If the Registrant has not adopted such a code of ethics, explain why it has not done so.

(2) For purposes of this instruction, the term "code of ethics" means written standards that are reasonably designed to deter wrongdoing and to promote: (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (ii) full, fair, accurate, timely, and understandable disclosure in reports and documents that a Registrant files with, or submits to, the Commission and in other public communications made by the Registrant; (iii) compliance with applicable governmental laws, rules, and regulations; (iv) the prompt internal reporting of violations of the code to an appropriate person or persons identified in the code; and (v) accountability for adherence to the code.

(3) The Registrant must briefly describe the nature of any amendment, during the period covered by the report, to a provision of its code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Registrant or a third party, and that relates to any element of the code of ethics definition enumerated in paragraph (a)(2) of this instruction. The Registrant must file a copy of any such amendment as an exhibit to this report on Form N-CEN, unless the Registrant has elected to satisfy paragraph (a)(6) of this instruction by posting its code of ethics on its website pursuant to paragraph (a)(6)(ii) of this Instruction, or by undertaking to provide its code of ethics to any person without charge, upon request, pursuant to paragraph (a)(6)(iii) of this instruction.

(4) If the Registrant has, during the period covered by the report, granted a waiver, including an implicit waiver, from a provision of the code of ethics to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Registrant or a third party, that relates to one or more of the items set forth in paragraph (a)(2) of this instruction, the Registrant must briefly describe the nature of the waiver, the name of the person to whom the waiver was granted, and the date of the waiver.

(5) If the Registrant intends to satisfy the disclosure requirement under paragraph (a)(3) or (4) of this instruction regarding an amendment to, or a waiver from, a provision of its code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any element of the code of ethics definition enumerated in paragraph (a)(2) of this instruction by posting such information on its Internet website, disclose the Registrant's Internet address and such intention.

(6) The Registrant must: (i) file with the Commission a copy of its code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, as an exhibit to its report on this Form N-CEN; (ii) post the text of such code of ethics on its Internet website and disclose, in its most recent report on this Form N-CEN, its Internet address and the fact that it has posted such code of ethics on its Internet website; or (iii) undertake in its most recent report on this Form N-CEN to provide to any person without charge, upon request, a copy of such code of ethics and explain the manner in which such request may be made.

(7) A Registrant may have separate codes of ethics for different types of officers. Furthermore, a "code of ethics" within the meaning of paragraph (a)(2) of this instruction may be a portion of a broader document that addresses additional topics or that applies to more persons than those specified in paragraph (a)(1) of this instruction. In satisfying the requirements of paragraph (a)(6) of this instruction, a Registrant need only file, post, or provide the portions of a broader document that constitutes a "code of ethics" as defined in paragraph (a)(2) of this instruction and that apply to the persons specified in paragraph (a)(1) of this instruction.

(8) If a Registrant elects to satisfy paragraph (a)(6) of this instruction by posting its code of ethics on its Internet website pursuant to paragraph (a)(6)(ii), the code of ethics must remain accessible on its website for as long as the Registrant remains subject to the requirements of this instruction and chooses to comply with this instruction by posting its code on its Internet website pursuant to paragraph (a)(6)(ii).

(9) The Registrant does not need to provide any information pursuant to paragraphs (a)(3) and (4) of this instruction if it discloses the required information on its Internet website within five business days following the date of the amendment or waiver and the Registrant has disclosed in its most recently filed report on this Form N-CEN its Internet website address and intention to provide disclosure in this manner. If the amendment or waiver occurs on a Saturday, Sunday, or holiday on which the Commission is not open for business, then the five business day period shall begin to run on and include the first business day thereafter. If the Registrant elects to disclose this information through its website, such information must remain available on the website for at least a 12-month period. The Registrant must retain the information for a period of not less than six years following the end of the fiscal year in which the amendment or waiver occurred. Upon request, the Registrant must furnish to the Commission or its staff a copy of any or all information retained pursuant to this requirement.

(10) The Registrant does not need to disclose technical, administrative, or other non-substantive amendments to its code of ethics.

(11) For purposes of this instruction: (i) the term "waiver" means the approval by the Registrant of a material departure from a provision of the code of ethics; and (ii) the term "implicit waiver" means the Registrant's failure to take action within a reasonable period of time regarding a material departure from a provision of the code of ethics that has been made known to an executive officer, as defined in rule 3b-7 under the Exchange Act (17 CFR 240.3b-7), of the Registrant.

(b) (1) Disclose that the Registrant's board of directors has determined that the Registrant either: (i) has at least one audit committee financial expert serving on its audit committee; or (ii) does not have an audit committee financial expert serving on its audit committee.

(2) If the Registrant provides the disclosure required by paragraph (b)(1)(i) of this instruction, it must disclose the name of the audit committee financial expert and whether that person is "independent." In order to be considered "independent" for purposes of this instruction, a member of an audit committee may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (i) accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer; or (ii) be an "interested person" of the investment company as defined in Section 2(a)(19) of the Act (15 U.S.C. 80a-2(a)(19)).

(3) If the Registrant provides the disclosure required by paragraph (b)(1)(ii) of this instruction, it must explain why it does not have an audit committee financial expert.

(4) If the Registrant's board of directors has determined that the Registrant has more than one audit committee financial expert serving on its audit committee, the Registrant may, but is not required to, disclose the names of those additional persons. A Registrant choosing to identify such persons must indicate whether they are independent pursuant to paragraph (b)(2) of this instruction.

(5) For purposes of this instruction, an "audit committee financial expert" means a person who has the following attributes: (i) an understanding of generally accepted accounting principles and financial statements; (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals, and reserves; (iii) experience preparing, auditing, analyzing, or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Registrant's financial statements, or experience actively supervising one or more persons engaged in such activities; (iv) an understanding of internal controls and procedures for financial reporting; and (v) an understanding of audit committee functions.

(6) A person shall have acquired such attributes through: (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant, or auditor or experience in one or more positions that involve the performance of similar functions; (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor, or person performing similar functions; (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing, or evaluation of financial statements; or (iv) other relevant experience.

(7) (i) A person who is determined to be an audit committee financial expert will not be deemed an "expert" for any purpose, including without limitation for purposes of Section 11 of the Securities Act (15 U.S.C. 77k), as a result of being designated or identified as an audit committee financial expert pursuant to this instruction; (ii) the designation or identification of a person as an audit committee financial expert pursuant to this instruction does not impose on such person any duties, obligations, or liability that are greater than the duties, obligations, and liability imposed on such person as a member of the audit committee and board of directors in the absence of such designation or identification; (iii) the designation or identification of a person as an audit committee financial expert pursuant to this instruction does not affect the duties, obligations, or liability of any other member of the audit committee or board of directors.

(8) If a person qualifies as an audit committee financial expert by means of having held a position described in paragraph (b)(6)(iv) of this Instruction, the Registrant shall provide a brief listing of that person's relevant experience.

SIGNATURES

Pursuant to the requirements of the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

_____

(Registrant)

Date _____

_____

(Signature)*

*Print full name and title of the signing officer under his/her signature.

66. Form N-CSR (referenced in §274.128) is amended by:

a. In Item 11(a), removing the phrase "90 days" and adding in its place "180 days";

b. In Item 11(b), removing the phrase "the second fiscal quarter of";

c. Removing the instruction to Item 11(b);

d. In paragraph 4(c) of the certification exhibits listed in Item 12, removing the phrase "90 days" and adding in its place "180 days";

e. In paragraph 4(d) of the certification exhibits listed in Item 12, removing the phrase "the second fiscal quarter of";

f. In Item 12, removing the instruction to paragraph (a)(2).

Note: The text of Form N-CSR does not and these amendments will not appear in the *Code of Federal Regulations*.

§274.130 [Removed and Reserved].

67. Section 274.130 is removed and reserved.

68. Section 274.150 is added to read as follows:

§274.150 Form N-PORT, Monthly portfolio holdings report.

(a) Except as provided in paragraph (b) of this section, this form shall be used by registered management investment companies or exchange-traded funds organized as unit investment trusts, or series thereof, to file reports pursuant to §270.30b1-9 of this chapter not later than 30 days after the end of each month.

(b) Form N-PORT shall not be filed by a registered open-end management investment company that is regulated as a money market fund under §270.2a-7 of this chapter or a small business investment company registered on Form N-5 (§§239.24 and 274.5 of this chapter), or series thereof.

Note: The text of Form N-PORT will not appear in the *Code of Federal Regulations*.

FORM N-PORT
MONTHLY PORTFOLIO INVESTMENTS REPORT

Form N-PORT is to be used by a registered management investment company, or an exchange-traded product organized as a unit investment trust, or series thereof ("fund"), other than a fund that is regulated as a money market fund ("money market fund") under rule 2a-7 under the Investment Company Act of 1940 [15 U.S.C. 80a] ("Act") (17 CFR 270.2a-7) or a small business investment company ("SBIC") registered on Form N-5 (17 CFR 239.24 and 274.5), to file monthly portfolio holdings reports pursuant to rule 30b1-9 under the Act (17 CFR 270.30b1-9). The Commission may use the information provided on Form N-PORT in its regulatory, enforcement, examination, disclosure review, inspection, and policymaking roles.

GENERAL INSTRUCTIONS

A. Rule as to Use of Form N-PORT

Form N-PORT is the reporting form that is to be used for monthly reports of funds other than money market funds and SBICs under section 30(b) of the Act, as required by rule 30b1-9 under the Act (17 CFR 270.30b1-9). Funds must report information about their portfolios and each of their portfolio holdings as of the last business day, or last calendar day, of the month. Reports on Form N-PORT must be filed with the Commission no later than 30 days after the end of each month. Each fund is required to file a separate report.

A fund may file an amendment to a previously filed report at any time, including an amendment to correct a mistake or error in a previously filed report. A fund that files an amendment to a previously filed report must provide information in response to all items of Form N-PORT, regardless of why the amendment is filed.

B. Application of General Rules and Regulations

The General Rules and Regulations under the Act contain certain general requirements that are applicable to reporting on any form under the Act. These general requirements shall be carefully read and observed in the preparation and filing of reports on this Form, except that any provision in the Form or in these instructions shall be controlling.

C. Filing of Reports

Reports must be filed electronically using the Commission's Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system in accordance with Regulation S-T. Consult the EDGAR Filer Manual and Appendices for EDGAR filing instructions.

D. Paperwork Reduction Act Information

A fund is not required to respond to the collection of information contained in Form N-PORT unless the form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to the Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090. OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. 3507.

E. Definitions

References to sections and rules in this Form N-PORT are to the Act, unless otherwise indicated. Terms used in this Form N-PORT have the same meanings as in the Act or related rules, unless otherwise indicated.

As used in this Form N-PORT, the terms set out below have the following meanings:

"Class" means a class of shares issued by a Multiple Class Fund that represents interests in the same portfolio of securities under rule 18f-3 [17 CFR 270.18f-3] or under an order exempting the Multiple Class Fund from one or more provisions of section 18 [15 U.S.C. 80a-18].

"Controlled Foreign Corporation" has the meaning provided in section 957 of the Internal Revenue Code [26 U.S.C. 957].

"Exchange-Traded Product" means an open-end management investment company (or Series or Class thereof) or unit investment trust, the shares of which are listed and traded on a national securities exchange, and that has formed and operates under an exemptive order under the Act granted by the Commission or in reliance on an exemptive rule under the Act adopted by the Commission.

"Fund" means the Registrant or a separate Series of the Registrant. When an item of Form N-PORT specifically applies to a Registrant or a Series, those terms will be used.

"Illiquid Asset" means an asset that cannot be sold or disposed of by the Fund in the ordinary course of business within seven calendar days, at approximately the value ascribed to them by the Fund.

"Investment Grade" refers to an investment that is sufficiently liquid that it can be sold at or near its carrying value within a reasonably short period of time and is subject to no greater than moderate credit risk.

"ISIN" means, with respect to any security, the "international securities identification number" assigned by a national numbering agency, partner, or substitute agency that is coordinated by the Association of National Numbering Agencies.

"LEI" means, with respect to any company, the "legal entity identifier" as assigned or recognized by the Global LEI Regulatory Oversight Committee or the Global LEI Foundation. In the case of a financial institution, if a "legal entity identifier" has not been assigned, then provide the RSSD ID, if any, assigned by the National Information Center of the Board of Governors of the Federal Reserve System.

"Multiple Class Fund" means a Fund that has more than one Class.

"Non-Investment Grade" refers to an investment that is not Investment Grade.

"Registrant" means a management investment company, or an Exchange-Traded Product organized as a unit investment trust, registered under the Act.

"Restricted Security" has the meaning defined in rule 144(a)(3) under the Securities Act of 1933 [17 CFR 230.144(a)(3)].

"Series" means shares offered by a Registrant that represent undivided interests in a portfolio of investments and that are preferred over all other series of shares for assets specifically allocated to that series in accordance with rule 18f-2(a) [17 CFR 270.18f-2(a)].

"Swap" means either a "security-based swap" or a "swap" as defined in sections 3(a)(68) and (69) of the Securities Exchange Act of 1934 [15 U.S.C. 78c(a)(68) and (69)] and any rules, regulations, or interpretations of the Commission with respect to such instruments.

F. Public Availability

Information reported on Form N-PORT for the third month of each fund's fiscal quarter will be made publicly available 60 days after the end of the fund's fiscal quarter.

The SEC does not intend to make public the information reported on Form N-PORT for the first and second months of each fund's fiscal quarter, or any information reported in Part D of this Form. However, the SEC may use information reported on this Form in its regulatory programs, including examinations, investigations, and enforcement actions.

G. Responses to Questions

In responding to the items on this Form, the following guidelines apply unless otherwise specifically indicated:

- A fund is required to respond to every item of this form. If an item requests information that is not applicable, for example, an LEI for a counterparty that does not have an LEI, respond N/A;
- If an item requests the name of an entity, provide the full name to the extent known, and do not use abbreviations (other than abbreviations that are part of the full name);

- If an item requests information expressed as a percentage, enter the response as a percentage (not a decimal), rounded to the nearest hundredth of one percent (*e.g.*, 5.27%);
- If an item requests a monetary value, report the amount rounded to the nearest hundredth (*e.g.*, if U.S. dollars, round to the nearest penny);
- For currencies other than U.S. dollars, also report the applicable three-letter alphabetic currency code pursuant to the International Organization for Standardization ("ISO") 4217 standard;
- If an item requests a unique identifier, such an identifier may be internally generated by the fund or provided by a third party, but should be consistently used across the fund's filings for reporting that investment so that the Commission, investors, and other users of the information can track the investment from report to report;
- If an item requests a numerical value other than a percentage or a dollar value, provide information rounded to the nearest hundredth;
- If an item requests a date, provide information in mm/dd/yyyy format; and
- If an item requests information regarding a "holding" or "investment," separately report information as to each holding or investment that is recorded in the Fund's books as part of a larger transaction. For example, two or more partially offsetting legs of a transaction entered into with the same counterparty under a common master agreement shall each be separately reported.

H. Signature and Filing of Report

If the report is filed in paper pursuant to a hardship exemption from electronic filing (see Item 201 *et seq*. of Regulation S-T (17 CFR 232.201 *et seq*.)), eight complete copies of the report shall be filed with the Commission. At least one complete copy of the report shall be filed with each exchange on which any class of securities of the registrant is registered. At least one complete copy of the report filed with the Commission and one such copy filed with each exchange must be manually signed. Copies not manually signed must bear typed or printed signatures.

The report must be signed by the Registrant, and on behalf of the Registrant by an authorized officer of the Registrant. The name of each person who signs the report shall be typed or printed beneath his or her signature. See rule 302 of Regulation S‑T [17 CFR 232.302] regarding signatures on forms filed electronically and rule 8b-11 under the Act (17 CFR 270.8b-11) concerning signatures pursuant to powers of attorney.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM N-PORT
MONTHLY SCHEDULE OF PORTFOLIO INVESTMENTS

Part A: General Information

Item A.1. Information about the Registrant.

a. Name of Registrant.

b. Investment Company Act file number for Registrant: (*e.g.*, 811-_____).

c. CIK number of Registrant.

d. LEI of Registrant.

e. Address and telephone number of Registrant.

Item A.2. Information about the Series

a. Name of Series.

b. EDGAR series identifier (if any).

c. LEI of Series.

Item A.3. Reporting period.

a. Date of fiscal year-end.

b. Date as of which information is reported.

Item A.4. Does the Fund anticipate that this will be its final filing on Form N-PORT? [Y/N]

Part B: Information About the Fund

Report the following information for the Fund and its consolidated subsidiaries.

Item B.1. Assets and liabilities. Report amounts in U.S. dollars.

a. Total assets, including assets attributable to miscellaneous securities reported in Part D.

b. Total liabilities.

c. Net assets.

Item B.2. Certain assets and liabilities. Report amounts in U.S. dollars.

a. Assets attributable to miscellaneous securities reported in Part D.

b. Assets invested in a Controlled Foreign Corporation for the purpose of investing in certain types of instruments such as, but not limited to, commodities.

c. Borrowings attributable to amounts payable for notes payable, bonds, and similar debt, as reported pursuant to rule 6-04(13)(a) of Regulation S-X [17 CFR 210.6-04(13)(a)].

d. Payables for investments purchased either (i) on a delayed delivery, when-issued, or other firm commitment basis, or (ii) on a standby commitment basis.

e. Liquidation preference of outstanding preferred stock issued by the Fund.

Item B.3. Portfolio level risk metrics. If the Fund's notional value of debt investments is 20% or more of the Fund's net asset value, provide:

a. Interest Rate Risk. For each currency to which the fund is exposed and for each of the following maturities: 1 month, 3 month, 6 month, 1 year, 2 years, 3 years, 5 years, 7 years, 10 years, 20 years, and 30 years, provide the change in value of the portfolio resulting from a 1 basis point change in interest rates (DV01).

b. Credit Spread Risk. Provide the change in value of the portfolio resulting from a 1 basis point change in credit spreads (SDV01/CR01/CS01), aggregated by Investment Grade and Non-Investment Grade exposures, for each of the following maturities: 1 month, 3 month, 6 month, 1 year, 2 years, 3 years, 5 years, 7 years, 10 years, 20 years, and 30 years.

Calculate notional value as the sum of the absolute values of: (i) the value of each debt security, (ii) the notional amount of each swap, including, but not limited to, total return swaps, interest rate swaps credit default swaps, for which the underlying reference asset or assets are debt securities or an interest rate; and (iii) the delta-adjusted notional amount of any option for which the underlying reference asset is an asset described in clause (i) or (ii). Report zero for maturities to which the fund has no exposure. For exposures that fall between any of the listed maturities in (a) and (b), use linear interpolation to approximate exposure to each maturity listed above. For exposures outside of the range of maturities listed above, include those exposures in the nearest maturity.

Item B.4. Securities lending counterparties. For each counterparty to the fund in any securities lending transaction, provide the following information:

a. Name of counterparty.

b. LEI of counterparty (if any).

c. Aggregate value of all securities on loan to the counterparty.

Item B.5. Return information.

a. Monthly total returns of the Fund for each of the preceding three months. If the fund is a Multiple Class Fund, report returns for each class. Such returns shall be calculated in accordance with the methodologies outlined in Item 26(b)(1) of Form N-1A, Instruction 13 to sub-Item 1 of Item 4 of Form N-2, or Item 26(b)(i) of Form N-3, as applicable.

b. Class identification number(s) (if any) of the class(es) for which returns are reported.

c. For each of the preceding three months, monthly net realized gain (loss) and net change in unrealized appreciation (or depreciation) attributable to derivatives for each of the following categories: commodity contracts, credit contracts, equity contracts, foreign exchange contracts, interest rate contracts, and other contracts. Report in U.S. dollars. Losses and depreciation shall be reported as negative numbers.

d. For each of the preceding three months, monthly net realized gain (loss) and net change in unrealized appreciation (or depreciation) attributable to investments other than derivatives. Report in U.S. dollars. Losses and depreciation shall be reported as negative numbers.

Item B.6. Flow information. Provide the aggregate dollar amounts for sales and redemptions/repurchases of Fund shares during each of the preceding three months. The amounts to be reported under this Item should be after any front-end sales load has been deducted and before any deferred or contingent deferred sales load or charge has been deducted. Shares sold shall include shares sold by the Fund to a registered unit investment trust. For mergers and other acquisitions, include in the value of shares sold any transaction in which the Fund acquired the assets of another investment company or of a personal holding company in exchange for its own shares. For liquidations, include in the value of shares redeemed any transaction in which the Fund liquidated all or part of its assets. Exchanges are defined as the redemption or repurchase of shares of one fund or series and the investment of all or part of the proceeds in shares of another fund or series in the same family of investment companies.

a. Total net asset value of shares sold (including exchanges but excluding reinvestment of dividends and distributions).

b. Total net asset value of shares sold in connection with reinvestments of dividends and distributions.

c. Total net asset value of shares redeemed or repurchased, including exchanges.

Part C: Schedule of Portfolio Investments

For each investment held by the Fund and its consolidated subsidiaries, disclose the information requested in Part C. A Fund may report information for securities in an aggregate amount not exceeding five percent of its total assets as miscellaneous securities in Part D in lieu of reporting those securities in Part C, provided that the securities so listed are not restricted, have been held for not more than one year prior to the end of the reporting period covered by this report, and have not been previously been reported by name to the shareholders of the Fund or to any exchange, or set forth in any registration statement, application, or annual report or otherwise made available to the public.

Item C.1. Identification of investment.

a. Name of issuer (if any).

b. LEI of issuer (if any).

c. Title of the issue or description of the investment.

d. CUSIP (if any).

e. At least one of the following other identifiers:

   i. ISIN.

   ii. Ticker (if ISIN is not available).

   iii. Other unique identifier (if ticker and ISIN are not available). Indicate the type of identifier used.

Item C.2. Amount of each investment.

a. Balance. Indicate whether amount is expressed in number of shares, principal amount, or other units. For derivatives contracts, as applicable, provide the number of contracts.

b. Currency. Indicate the currency in which the investment is denominated.

c. Value. Report values in U.S. dollars. If currency of investment is not denominated in U.S. dollars, provide the exchange rate used to calculate value.

d. Percentage value compared to net assets of the Fund.

Item C.3. Indicate payoff profile among the following categories (long, short, N/A). For derivatives, respond N/A to this Item and respond to the relevant payoff profile question in Item C.11.

Item C.4. Asset and issuer type. Select the category that most closely identifies the instrument among each of the following:

a. Asset type (short-term investment vehicle (*e.g.,* money market fund, liquidity pool, or other cash management vehicle), repurchase agreement, equity-common, equity-preferred, debt, derivative-commodity, derivative-credit, derivative-equity, derivative-foreign exchange, derivative-interest rate, structured note, loan, ABS-mortgage backed security, ABS-asset backed commercial paper, ABS-collateralized bond/debt obligation, ABS-other, commodity, real estate, other). If "other," provide a brief description.

b. Issuer type (corporate, U.S. Treasury, U.S. government agency, U.S. government sponsored entity, municipal, non-U.S. sovereign, private fund, registered fund, other). If "other," provide a brief description.

Item C.5. Country of investment or issuer. Report the ISO country code that corresponds to the country of investment or issuer based on the concentrations of the risk and economic exposure of the investments. If different from the country of the risk and economic exposure, also provide the country where the issuer is organized.

Item C.6. Is the investment a Restricted Security? [Y/N]

Item C.7. Is the investment an Illiquid Asset? [Y/N]

Item C.8. Indicate the level within the fair value hierarchy in which the fair value measurements fall pursuant to U.S. Generally Accepted Accounting Principles (ASC 820, Fair Value Measurement). [1/2/3]

Item C.9. For debt securities, also provide:

a. Maturity date.

b. Coupon.

   i. Select the category that most closely reflects the coupon type among the following (fixed, floating, variable, none).

   ii. Annualized rate.

c. Currently in default? [Y/N]

d. Are there any interest payments in arrears or have any coupon payments been legally deferred by the issuer? [Y/N]

e. Is any portion of the interest paid in kind? [Y/N] Enter "N" if the interest may be paid in kind but is not actually paid in kind.

f. For convertible securities, also provide:

   i. Mandatory convertible? [Y/N]

   ii. Contingent convertible? [Y/N]

iii. Description of the reference instrument, including the name of issuer, title of issue, and currency in which denominated, as well as CUSIP of reference instrument, ISIN (if CUSIP is not available), ticker (if CUSIP and ISIN are not available), or other identifier (if CUSIP, ISIN, and ticker are available). If other identifier provided, indicate the type of identifier used.

iv. Conversion ratio per US$1000 notional, or, if bond currency is not in U.S. dollars, per 1000 units of the relevant currency, indicating the relevant currency. If there is more than one conversion ratio, provide each conversion ratio.

v. Delta.

Item C.10. For repurchase and reverse repurchase agreements, also provide:

a. Select the category that reflects the transaction (repurchase, reverse repurchase). Select "repurchase agreement" if the Fund is the cash lender and receives collateral. Select "reverse repurchase agreement" if the Fund is the cash borrower and posts collateral.

b. Counterparty.

i. Cleared by central counterparty? [Y/N] If Y, provide the name of the central counterparty.

ii. If N, provide the name and LEI (if any) of counterparty.

c. Tri-party? [Y/N]

d. Repurchase rate.

e. Maturity date.

f. Provide the following information concerning the securities subject to the repurchase agreement (*i.e.,* collateral). If multiple securities of an issuer are subject to the repurchase agreement, those securities may be aggregated in responding to Items C.10.f.i-iii.

i. Principal amount.

ii. Value of collateral.

iii. Category of investments that most closely represents the collateral, selected from among the following (asset-backed securities; agency collateralized mortgage obligations; agency debentures and agency strips; agency mortgage-backed securities; private label collateralized mortgage obligations; corporate debt securities; equities; money market; U.S. Treasuries (including strips); other instrument). If "other instrument," include a brief description, including, if applicable, whether it is a

collateralized debt obligation, municipal debt, whole loan, or international debt.

Item C.11. For derivatives, also provide:

a. Category of derivative that most closely represents the investment, selected from among the following (forward, future, option, swaption, swap, warrant, other). If "other," provide a brief description.

b. Counterparty.

   i. Provide the name and LEI (if any) of counterparty (including a central counterparty).

c. For options and warrants, including options on a derivative (*e.g.*, swaptions) provide:

   i. Type, selected from among the following (put, call). Respond call for warrants.

   ii. Payoff profile, selected from among the following (written, purchased). Respond purchased for warrants.

   iii. Description of reference instrument.

      1. If the reference instrument is a derivative, indicate the category of derivative from among the categories listed in sub-Item C.11.a. and provide all information required to be reported on this Form for that category.

      2. If the reference instrument is an index, and if the index's components are publicly available on a website and are updated on that website no less frequently than quarterly, identify the index and provide the index identifier, if any. If the index's components are not publicly available in that manner, and the notional amount of the derivative represents 1% or less of the net asset value of the Fund, provide a narrative description of the index. Otherwise, provide the name, identifier, number of shares or notional amount or contract value as of the trade date (all of which would be reported as negative for short positions), value, and unrealized appreciation or depreciation of every component in the index. The identifier shall include CUSIP of the index component, ISIN (if CUSIP is not available), ticker (if CUSIP and ISIN are not available), or other identifier (if CUSIP, ISIN, and ticker are not available). If other identifier provided, indicate the type of identifier used.

      3. If the reference instrument is neither a derivative or an index, the description of the reference instrument shall include the name of issuer and title of issue, as well as CUSIP of reference instrument, ISIN (if CUSIP

is not available), ticker (if CUSIP and ISIN are not available), or other identifier (if CUSIP, ISIN, and ticker are available). If other identifier provided, indicate the type of identifier used.

iv. Number of shares or principal amount of underlying reference instrument per contract.

v. Exercise price or rate.

vi. Expiration date.

vii. Delta.

viii. Unrealized appreciation or depreciation.

d. For futures and forwards (other than foreign exchange forwards), provide:

i. Payoff profile, selected from among the following (long, short).

ii. Description of reference instrument, as required by sub-Item C.11.c.iii.

iii. Expiration date.

iv. Aggregate notional amount or contract value on trade date.

v. Unrealized appreciation or depreciation.

e. For foreign exchange forwards and swaps, provide:

i. Amount and description of currency sold.

ii. Amount and description of currency purchased.

iii. Settlement date.

iv. Unrealized appreciation or depreciation.

f. For swaps (other than foreign exchange swaps), provide:

i. Description and terms of payments necessary for a user of financial information to understand the terms of payments to be paid and received, including, as applicable, description of the reference instrument, obligation, or index (including the information required by sub-Item C.11.c.iii), financing rate, floating rate, fixed rates, and payment frequency.

1. Description and terms of payments to be received from another party.

2. Description and terms of payments to be paid to another party.

ii. Termination or maturity date.

iii. Upfront payments or receipts.

iv. Notional amount.

v. Unrealized appreciation or depreciation.

g. For other derivatives, provide:

i. Description of information sufficient for a user of financial information to understand the nature and terms of the investment, including as applicable, among other things, currency, payment terms, payment rates, call or put feature, exercise price, and information required by sub-Item C.11.c.iii.

ii. Termination or maturity (if any).

iii. Notional amount(s).

iv. Delta (if applicable).

v. Unrealized appreciation or depreciation.

Item C.12. Securities lending.

a. Does any amount of this investment represent reinvestment of cash collateral received for loaned securities? [Y/N] If Yes, provide the value of the investment representing cash collateral.

b. Does any portion of this investment represent non-cash collateral received for loaned securities? [Y/N] If yes, provide the value of the securities representing non-cash collateral.

c. Is any portion of this investment on loan by the Registrant? [Y/N] If Yes, provide the value of the securities on loan.

Part D: Miscellaneous Securities

Report miscellaneous securities, if any, using the same Item numbers and reporting the same information that would be reported for each investment in Part C if it were not a miscellaneous security. Information reported in this Item will be nonpublic.

Part E: Explanatory Notes (if any)

The Fund may provide any information it believes would be helpful in understanding the information reported in this Form. The Fund may also explain any assumptions that it made in responding to any Item in this Form. To the extent responses relate to a particular Item, provide the Item number(s), as applicable.

Part F: Exhibits

For reports filed for the end of the first and third quarters of the Fund's fiscal year, attach the Fund's complete portfolio holdings as of the close of the period covered by the report. These portfolio holdings must be presented in accordance with the schedules set forth in §§210.12-12 – 12-14 of Regulation S-X [17 CFR 210.12-12 – 12-14].

SIGNATURES

The Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Registrant: _____ By (Signature): _____

Name of Signing Officer: _____

Title of Signing Officer: _____

Date: _____

By the Commission.

Robert W. Errett
Deputy Secretary

Dated: May 20, 2015

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