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SECURITIES AND EXCHANGE COMMISSION

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

[Release Nos. 33-10231; 34-79095; IC-32314; File No. S7-08-15]

RIN 3235-AL42

Investment Company Reporting Modernization

AGENCY: Securities and Exchange Commission.

ACTION: Final rule.

SUMMARY: The Securities and Exchange Commission is adopting 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 adopting new Form N-PORT, which will 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 adopting amendments to Regulation S-X, which will require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The Commission is adopting new Form N-CEN, which will 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. The Commission is adopting amendments to Forms N-1A, N-3, and N-CSR to require certain disclosures regarding securities lending activities. Finally, the Commission is rescinding current Forms N-Q and N-SAR and amending certain other rules and forms. Collectively, these amendments will, 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 can also utilize this information to help investors make more informed investment decisions.

DATES: *Effective Dates*: This rule is effective [insert date 60 days after date of publication in the Federal Register], except for the following:

- The amendments to 17 CFR 200.800, 232.105, 232.301, 240.10A-1, 240.12b-25, 240.13a-10, 240.13a-11, 240.13a-13, 240.13a-16, 240.15d-10, 240.15d-11, 240.15d-13, 240.15d-16, 249.322, 249.330, 270.8b-16, 270.10f-3, 270.30a-1, 270.30a-4, 270.30b1-1, 270.30b1-2, 270.30b1-3, 274.101, and 274.218, and in Instruction 55 amending §270.30d-1 are effective June 1, 2018; and
- The amendments to 17 CFR 232.401, 249.332, 270.8b-33, 270.30a-2, 270.30a-3, 270.30b1-5, and 274.130, and in Instruction 54 amending §270.30d-1, Instruction 57 amending Form N-1A (referenced in §§239.15A and 274.11A), Instruction 59 amending Form N-2 (referenced in §§239.14 and 274.11a-1), and Instruction 61 amending Form N-3 (referenced in §§239.17a and 274.11b) are effective August 1, 2019.

Compliance Dates: The applicable compliance dates are discussed in section II.H. of this final rule.

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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 adopting new Form N-PORT [referenced in 17 CFR 274.150] and 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] and 30b1-9 [17 CFR 270.30b1-9] under the Investment Company Act; rescinding 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; adopting 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], and Form N-8F [referenced in 17 CFR 274.218] under the Investment Company Act; adopting 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"); adopting amendments to Form N-14 [referenced in 17 CFR 239.23] under the Securities Act; rescinding Form N-SAR [referenced in 17 CFR 274.101 and Form N-Q [referenced in 17 CFR 274.130] and adopting 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"); adopting 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], 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; rescinding section 332 [17 CFR 249.332] and adopting amendments to sections 322 [17 CFR 249.322] and 330 [17 CFR 249.330] of 17 CFR Part 249; adopting 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]; adopting amendments to section 800 of 17 CFR Part 200 [17 CFR 200.800]; and adopting 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].

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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 17,052 funds registered with the Commission, as of December 2015.[2] Commission staff further estimates that there were nearly 12,000 investment advisers registered with the Commission, along with another 3,138 advisers that file reports with the Commission as exempt reporting advisers, as of January 2016.[3]

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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 new or amended forms or rules.

[2] Based on data obtained from the Investment Company Institute ("ICI") and reports filed by registrants on Form N-SAR. The 17,052 funds include mutual funds (including funds of funds and money market funds), closed-end funds, exchange-traded funds ("ETFs"), and unit investment trusts ("UITs"). *See* ICI, 2016 INVESTMENT COMPANY FACT BOOK (56th ed., 2016) ("2016 ICI Fact Book") at 22, *available at* https://www.ici.org/pdf/2016_factbook.pdf; *see also infra* footnote 1259 and accompanying and following text.

[3] Based on Investment Adviser Registration Depository ("IARD") 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* Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376, 1570–80 (2010).

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,

At year-end 2015, assets of registered investment companies exceeded $18 trillion, having grown from about $5.8 trillion at the end of 1998.[4] At the same time, the industry has developed new product structures, such as 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] 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 have also been significant advances in the technology that can be used to report and analyze information. We have started to use structured data formats to collect, aggregate, and analyze data reported by

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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. The Commission recently adopted amendments to Form ADV. *See* Form ADV and Investment Adviser Act Rules, Investment Advisers Act Release No. 4509 (August 25, 2016) [81 FR 60417 (September 1, 2016)] ("Form ADV Release").

4 *See* 2016 ICI Fact Book, *supra* footnote 2, at 9.

5 *See generally* Exchange-Traded Funds, Securities Act Release No. 8901 (Mar. 11, 2008) [73 FR 14618 (Mar. 18, 2008)] ("ETF Proposing Release") at 14619; Request for Comment on Exchange-Traded Products, Securities Exchange Act Rel. No. 34-75165 (June 12, 2015); *see also* ICI, Exchange-Traded Funds April 2016 (May 27, 2016), *available at* https://www.ici.org/research/stats/etf/etfs_04_16 (discussing April 2016 statistics on ETFs). As of April 2016, there were 1,630 ETFs with over $2 trillion in assets. Over the twelve-month period ending April 2016, assets of ETFs increased $89.63 billion. *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* Use of Derivatives by Registered Investment Companies and Business Development Companies, Investment Company Act Release No. 31933 (Dec. 11, 2015) [80 FR 80884 (Dec. 28, 2015)] ("Derivatives Proposing Release") (noting "dramatic growth in the volume and complexity of the derivatives markets over the past two decades, and the increased use of derivatives by certain funds"); *see also* Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) [80 FR 33590 (June 12, 2015)] ("Proposing Release") at n. 7.

registrants and other filers.[8] 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.

As we noted in the Proposing Release, 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.[9] In May 2015, we again acted to modernize our forms and the manner in which information is filed and disclosed by proposing a number of reforms for investment company reporting.[10] Our proposal included four sets of reforms: (1) the creation of a new portfolio holdings reporting form, Form N-PORT, and the rescission of Form N-Q; (2) the creation of a new census reporting form, Form N-CEN, and the rescission of Form N-SAR; (3) amendments to Regulation S-X, largely designed to improve

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[8] *See* Proposing Release, *supra* footnote 7, at nn. 12–16 and accompanying text (discussing the use of eXtensible Business Reporting Language ("XBRL") with open-end fund risk/return summaries and the use of Extensible Markup Language ("XML") with Forms N-MFP, PF and 13F, as well as in other contexts).

[9] *See supra* footnote 8 and accompanying text; *see also* Proposing Release, *supra* footnote 7, at nn. 8–9 and accompanying text (discussing the adoption of Form N-SAR and the adoption of rules requiring the use of the IARD for investment adviser filings); *see also* Derivatives Proposing Release, *supra* footnote 7 (proposing, among other things, reporting requirements in Forms N-PORT and N-CEN related to derivatives); Investment Company Liquidity Risk Management Programs; Investment Company Act Release No [x] (October 13, 2016) ("Liquidity Adopting Release"); Investment Company Swing Pricing; Investment Company Release No. [x] (October 13, 2016) ("Swing Pricing Adopting Release").

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, including on additional data or information that would be helpful to regulators and market participants. *See* FSOC, Notice Seeking Comment on Asset Management Products and Activities, Docket No. FSOC-2014-0001 (Dec. 24, 2014) ("FSOC Notice"), *available at* http://www.treasury.gov/initiatives/fsoc/rulemaking/Documents/Notice%20Seeking%20Comment%20on%20Asset%20Management%20Products%20and%20Activities.pdf. Although our proposal was independent of FSOC, several commenters responding to the notice discussed issues concerning data that were relevant to our proposal and those comments were discussed in the Proposing Release, as relevant. *See* Proposing Release, *supra* footnote 7, at nn. 17–18 and accompanying text.

[10] *See* Proposing Release, *supra* footnote 7.

derivatives disclosure; and (4) a proposed new rule, rule 30e-3, which would provide funds with an optional method to satisfy shareholder report transmission requirements by posting their reports online if they met certain conditions.

The proposed reforms were designed 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. These reforms also sought 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.

B. Summary of Changes to Current Reporting Regime

We received 1,003 comments[11] on our proposed reforms from a variety of interested parties, including investment companies, industry groups, investors, academics and others. As discussed in greater detail below in the relevant sections of this release, commenters generally supported our efforts to modernize the investment company reporting regime, but had varying comments on a number of specific items in each of the respective sets of reforms. Commenters

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[11] Of these, about 574 were individualized letters, and the rest were one of a number of types of form letters. *See* Comments on Investment Company Reporting Modernization, File No. S7-08-15, *available at* http://www.sec.gov/comments/s7-08-15/s70815.shtml. The comment period for the proposal closed on August 11, 2015, but was re-opened until January 13, 2016 when the Commission proposed liquidity risk management programs for open-end funds. *See* Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release, Investment Company Act Release No. 31835 (Sept. 22, 2015) [80 FR 62274 (Oct. 15, 2015)] ("Liquidity Proposing Release").

were generally supportive of proposed new Form N-PORT;[12] however, we received many comments relating to the data to be collected by the form, the frequency of filing reports on the form, and whether reports on the form or certain information in the reports should be made public. Commenters were also generally supportive of proposed new Form N-CEN,[13] agreeing that Form N-CEN will provide both the Commission and the public with enhanced and updated census-type information. Similar to Form N-PORT, however, commenters also provided many comments on the data to be collected by the form and whether certain information in reports on the form should be made public. In addition, commenters were largely supportive of our efforts to improve the information that funds report to shareholders and the Commission through the proposed amendments to Regulation S-X,[14] but had specific comments on certain disclosures. Comments on proposed rule 30e-3, which would allow funds to transmit reports to shareholders via the internet subject to a number of conditions, were mixed, with some commenters supporting the rule and others opposing it.[15]

Today, after consideration of the comments we received, we are adopting new Forms N-PORT and N-CEN, as well as amendments to Regulation S-X. We continue to believe that with the industry changes and technological advances that have occurred over the years, we need to improve the type and format of the information that funds provide to us and to investors, and 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

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[12] *See infra* footnotes 46, 64, 100, 115, 123, 145, 193, 197, 198, 245, 275, 283, 293, 330, 350, 379, 423, 432, 443, 455 and 475.

[13] *See infra* footnotes 745, 759, 769, 779, 819, 832, 857, 870, 883, 907, 940, 989, 1008, 1045, 1061, 1070, 1080, 1101 and 1107.

[14] *See infra* footnotes 527, 537, 556, 558, 566, 648, 665, 701 and 711.

[15] *See infra* footnotes 1178–1179.

advisers. We are not adopting proposed rule 30e-3 at this time as we believe, in light of the comments received, that additional consideration regarding the rule is appropriate. We are adopting amendments to Forms N-1A, N-3, and N-CSR to require certain disclosures regarding securities lending activities.[16]

1. Form N-PORT and Amendments to Regulation S-X

We are adopting Form N-PORT, largely as proposed, with certain modifications in response to commenters. We are also rescinding, as proposed, Form N-Q. Form N-PORT is a new portfolio holdings reporting form that will be filed by all registered management investment companies, other than money market funds and small business investment companies ("SBICs"),[17] and by UITs that operate as ETFs.[18] Currently, management investment companies (other than SBICs) are required to report their complete portfolio holdings to the Commission on a quarterly basis on Forms N-Q[19] and N-CSR.[20]

Form N-PORT requires reporting of a fund's complete portfolio holdings. The form also requires additional information concerning fund portfolio holdings that is not currently required by Forms N-Q and N-CSR, and that will facilitate risk analyses and other Commission oversight.

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[16] If any provision of these rules, or the application thereof to any person or circumstance, is held to be invalid, such invalidity shall not affect other provisions or application of such provisions to other persons or circumstances that can be given effect without the invalid provision or application.

[17] *See infra* footnote 49 (discussing why money market funds and SBICs will not be required to file reports on Form N-PORT).

[18] ETFs will 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.

[19] 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.

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

For example, Form N-PORT requires reporting of additional information relating to derivative investments. The form also includes certain risk metric calculations that measure a fund's exposure and sensitivity to changing market conditions, such as changes in asset prices, interest rates, or credit spreads. As was proposed, reports on Form N-PORT will be filed in a structured data format 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.

We continue to believe that more timely and frequent reporting of portfolio holdings information to the Commission, as well as the additional information Form N-PORT requires, will enable us to further our mission to protect investors by assisting the Commission and its staff in carrying out its regulatory responsibilities related to the asset management industry. These responsibilities include its examination, enforcement, and monitoring of funds, its 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 its staff, we also continue to believe that information in Form N-PORT will 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 required on Form N-PORT useful. For example, Form N-PORT's structured format will allow the Commission, investors, and other potential users to better collect and analyze portfolio holdings information.[21] While we do not anticipate that many individual investors will analyze data using Form N-PORT, although some may, we believe that individual investors will benefit indirectly from the

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[21] As we noted in the Proposing Release, portfolio holdings information currently filed on Form N-Q 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. *See* Proposing Release, *supra* footnote 7.

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 and other parties, such as industry observers and academics.

In addition, we are adopting, largely as proposed, amendments to Regulation S-X with certain modifications in response to comments. These amendments in large part require standardized enhanced derivatives disclosures in fund financial statements. Currently, Regulation S-X does not prescribe specific information for most types of derivatives, including swaps, futures, and forwards. While 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 continue to believe that the amendments to Regulation S-X to enhance and standardize derivatives disclosures in financial statements will allow comparability among funds and help all investors better assess funds' use of derivatives. Reports on Form N-PORT will contain similar derivatives disclosures to facilitate analysis of derivatives investments across funds. Because Form N-PORT is not primarily designed for individual investors, the amendments to Regulation S-X require disclosures concerning the fund's investments in derivatives in the financial statements that are provided to investors. We also have endeavored to mitigate burdens on the industry by conforming the derivatives disclosures that are required by both Regulation S-X and Form N-PORT.

2. Form N-CEN

We are adopting, substantially as proposed and with certain modifications in response to comments, Form N-CEN, a new form on which funds will report census-type information to the

Commission. We are also rescinding, as proposed, Form N-SAR, the current form on which the Commission collects census-type information on management investment companies and UITs.[22] As we discussed in the Proposing Release, Form N-SAR was adopted in 1985 and, 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 plus years since Form N-SAR's adoption, changes in the industry have reduced the utility of some of the currently required data elements.[23] Commission staff believes that obtaining certain additional census-type information not currently collected by Form N-SAR will improve the staff's ability to carry out regulatory functions, including risk monitoring and analysis of the industry.

Form N-CEN includes many of the same data elements as Form N-SAR, but, in order to improve the quality and utility of information reported, replaces 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 eliminating items that are reported on other Commission forms, or are available elsewhere. In addition, reports on Form N-CEN will be filed in a structured XML format, which, we believe, will 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.[24] Finally, reports on new Form N-CEN will be filed annually, rather than semi-annually as is

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

[23] *See* Proposing Release, *supra* footnote 7 (noting that when adopted, Form N-SAR was intended to reduce reporting burdens and better align the information that was required to be reported with the characteristics of the fund industry). Also as noted in the Proposing Release, the filing format that is required for reports on Form N-SAR limits our ability to use the reported information for analysis.

[24] *See infra* footnotes 750–752 and accompanying text.

required for reports on Form N-SAR by management companies, which will further reduce current burdens on funds.

II. DISCUSSION

A. Form N-PORT

As discussed above, we are adopting a new monthly portfolio reporting form, Form N-PORT. Form N-PORT requires 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 reports in an XML format no later than 30 days after the close of each month.[25] Except as discussed below in section II.A.4, only information reported for the third month of each fund's fiscal quarter on Form N-PORT will be publicly available, and that information will not be made public until 60 days after the end of the fiscal quarter.[26]

As the primary regulator of the asset management 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-CSR. 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

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

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

As discussed further in section II.A.4, the Commission 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 that is identifiable to any particular fund or adviser or any information reported with regard to country of risk and economic exposure, delta, or miscellaneous securities, or explanatory notes related to any of those topics that is identifiable to any particular fund or adviser. However, the Commission may use such information in its regulatory programs, including examinations, investigations, and enforcement actions. *See infra* footnote 500; *see also* General Instruction F of Form N-PORT.

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 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, and commenters generally agreed, that more frequent and timely information concerning fund portfolios than we currently receive, will assist the Commission in its role as the primary regulator of funds, as discussed further below.[28]

The information we will collect on Form N-PORT will be important to the Commission and its staff 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

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[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.*

[28] *See, e.g.*, Comment Letter of Morningstar, Inc. (Aug. 21, 2015) ("Morningstar Comment Letter") (expressing belief that timelier information to investors through monthly public disclosures of portfolios would assist the Commission in monitoring the financial system, while also providing suggested revisions to enhance the proposal.); Comment Letter of Vanguard (Aug. 11, 2015) ("Vanguard Comment Letter") (stating that the proposal strikes the appropriate balance between disclosures to the Commission and protecting funds and their investors from front-running, and providing suggested modifications to the proposal).

risk, credit risk, volatility risk, other market risks, or risks associated with specific types of investments, such as emerging market debt or commodities. Additionally, as we discuss in the Liquidity Adopting Release that we are adopting concurrently Form N-PORT will help the Commission better understand liquidity risks through additional Form N-PORT disclosure requirements discussed in that release.[29] The information collected on Form N-PORT will also assist with understanding whether and to what extent a fund's exposure to price movements is leveraged, either through borrowings or the use of derivatives.

Many commenters generally agreed with us that the information required on Form N-PORT will assist the Commission in better understanding each of these risks in the fund industry.[30] These commenters also generally agreed with us that the ability to understand the risks that funds face will help Commission staff better understand and monitor risks and trends in the fund industry as a whole, facilitating the Commission's informed regulation of the fund industry.[31] We also believe, and some commenters agreed, that information obtained from Form N-PORT filings will facilitate the Commission's oversight of funds and assist Commission staff

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[29] *See generally* Liquidity Adopting Release, *supra* footnote 9.

[30] *See, e.g.*, Comment Letter of BlackRock (Aug. 11, 2015) ("BlackRock Comment Letter") ("Importantly, the greater depth and frequency of information requested by the Commission will help the Commission better identify and monitor emerging risks associated with specific RICs or categories of RICs as well as asset management activities."); Comment Letter of Wells Fargo Funds Management, LLC (Aug. 11, 2015) ("Wells Fargo Comment Letter") ("we believe that the enhanced disclosure requirements of the Proposals represent appropriate valuable information for the Commission to have in order to assess trends in risks, for example, across the mutual fund industry."); *but see, e.g.*, Comment Letter of Federated Investors, Inc. (January 13, 2016) ("Federated Comment Letter) ("A majority of the Commission's proposed amendments to Form N-1A, N-PORT, and N-CEN would require a large effort from funds while offering data that is, at best, of little utility, and, at worst, misleading. Many of these deficiencies relate to flaws inherent in a security-level disclosure scheme."). We disagree with the commenter that a security-level disclosure scheme is of little utility. *See infra* footnote 1283 and accompanying and following text (discussing the utility of the security-level information that will be reported on Form N-PORT).

[31] *Id*.

in examination, enforcement, and monitoring, as well as in formulating policy and in its review of fund registration statements and disclosures.[32] In this regard, we expect that Commission staff will 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.[33]

In addition to assisting the Commission in its regulatory functions, we believe, and some commenters agreed, that investors and other potential users will benefit from the periodic public disclosure of the information reported on Form N-PORT.[34] Form N-PORT is primarily designed for use by the Commission and its staff, and not for disclosing information directly to individual investors. The information we are requiring on Form N-PORT is more voluminous than on a schedule of investments. We believe, and some commenters agreed, however, that some investors, particularly institutional investors, could directly use the data from the information on Form N-PORT for their own quantitative analysis of funds, including to better understand the

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[32] *Id*.

[33] *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; Amendments to Form PF, Investment Company Act Release No. 31166 (July, 23 2014) [79 FR 44076 (July 29, 2014)] ("Money Market Fund Reform 2014 Release") 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).

[34] *See, e.g.*, Comment Letter of Joseph A. Franco (Aug. 11, 2015) ("Franco Comment Letter"); Morningstar Comment Letter; *but see, e.g.*, Comment Letter of the Investment Company Institute (Aug. 11, 2015) ("ICI Comment Letter").

funds' investment strategies and risks, and to better compare funds with similar strategies.[35] Additionally, we believe, and some commenters agreed, that entities providing services to investors, such as investment advisers, broker-dealers, and entities that provide information and analysis for fund investors, will also utilize and analyze the information that will be required by Form N-PORT to help all investors make more informed investment decisions.[36] Accordingly, whether directly or through third parties, we believe, and some commenters agree, that the periodic public disclosure of the information on Form N-PORT will benefit all fund investors.[37] As discussed further below, in order to mitigate the risk that the information on Form N-PORT will be used in ways that might ultimately result in investor harm, we are limiting the public availability of Form N-PORT to reports filed as of quarter-end, as well as delaying public availability of those reports by 60 days and keep certain discrete information items nonpublic.

We intend to increase transparency of fund investments through Form N-PORT in several ways. First, Form N-PORT will improve reporting of fund derivative usage. As the Commission has previously noted, we have observed a dramatic growth in the volume and complexity of the derivatives markets over the past two decades.[38] Additionally, funds that are considered "alternative" funds, which often use derivatives for implementing their investment strategy, are becoming increasingly popular among investors.[39] Although Regulation S-X

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35 *Id*.

36 *See id*.

37 *See id*.

38 *See* Derivatives Proposing Release, *supra* footnote 7, at n. 6 and accompanying text; *see also* 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") at n. 7 and accompanying text.

39 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

establishes general disclosure requirements for financial statements in fund registration statements and shareholder reports, 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 better understand the investment.[40] This hinders both an analysis of a particular fund's investments, as well as comparability among funds.[41]

The information and reporting format required by Form N-PORT will create a more detailed, uniform, and structured reporting regime. We believe and several commenters agreed that this will allow the Commission and investors to better analyze and compare funds' derivatives investments and the exposures they create, which can be important to understanding funds' investment strategies, use of leverage, and potential for risk of loss.[42]

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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 2015, alternative mutual funds and exchange-traded funds had more than $200 billion in assets. Although alternative mutual funds only accounted for 1.23% of the mutual fund market as of December 2015, the almost $17.3 billion of inflows into these funds in 2015 represented 7% 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.

40 For example, we understand that some funds provide a description of all of the holdings in an index or custom basket underlying a swap contract, while others only provide a short description. *See also* Proposing Release, *supra* footnote 7, at n. 31 and accompanying text.

41 *See, e.g.*, current rule 12-13 of Regulation S-X [17 CFR 210.12-13] (requiring funds to disclose "other" investments, which includes derivatives); 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); FASB ASC 815, Disclosures about Derivative Instruments and Hedging Activities ("ASC 815") (discussing general derivative disclosure); FASB ASC 820, Fair Value Measurements ("ASC 820") (requiring disclosure of valuation information for major categories of investments). *See also infra* section 0.

42 *See, e.g.*, Comment Letter of Fidelity Investments (Aug. 10, 2015) ("Fidelity Comment Letter") (generally supporting Commission's focus on modernizing the way data is collected from funds and

Furthermore, as discussed further below, Form N-PORT requires 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 (prior to the Commission issuing the Proposing Release), discussed further below, we believe that fund portfolio managers and risk managers commonly calculate risk metrics to analyze the exposures in their portfolios.[43] 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.

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reported to shareholders and providing suggestions for modifications to the final rule); Comment Letter of Capital Research and Management Company (Aug. 11, 2015) ("CRMC Comment Letter") (supporting Commission's efforts to take advantage of technology in order to assist the staff, investors, and other market participants to better assess different fund products and assist the Commission in carrying out its mission; and providing suggestions for modifications to the final rule).

[43] *See generally* John C. Hull, OPTIONS, FUTURES, AND OTHER DERIVATIVES (9th ed., 2015) (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 of changes in underlying asset prices or interest rates); Sheldon Natenberg, OPTION VOLATILITY AND PRICING (1994) (same).

Form N-PORT will also require information about certain fund transactions and activities such as securities lending, repurchase agreements, and reverse repurchase agreements, including information regarding the counterparties to which the fund is exposed in those transactions, as well as in over-the-counter derivatives transactions. We believe and several commenters agreed that such information will increase transparency concerning these transactions and activities and will provide better information regarding counterparties, which will be useful in assessing both individual and multiple fund exposures to a single counterparty.[44] This will allow the Commission to better assess and monitor counterparty risk for individual funds, as well as across the industry.

As discussed further below, Form N-PORT will be filed electronically in a structured, XML format. This format will 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.[45] As a result, although we will 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 information in a structured format for analysis by our staff as well as investors and other potential users.

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[44] *See, e.g.*, Morningstar Comment Letter ("By collecting and making available additional information about counterparty risk and other important factors, the SEC will make it easier for investors and financial advisors to monitor portfolio risks.").

[45] *See, e.g.*, Fidelity Comment Letter ("Collecting data in a structured format should allow the Commission to use information from market participants in rigorous empirical examinations of the industry in furtherance of the SEC's goals."); ICI Comment Letter ("Obtaining that information in a structured data format will help the SEC to better analyze information and improve its ability to carry out its regulatory mission.").

Many commenters were generally supportive of our proposal.[46] However, we received many comments relating to the structure of the proposed form, data to be collected, frequency of filings, and whether reports on the form should be made public. We address these comments below and discuss modifications we made from the proposal in response to comments.

1. Who Must File Reports on Form N-PORT

We are adopting, as proposed, the requirement that each registered management investment company and each ETF organized as a UIT file a report on Form N-PORT.[47] Registrants offering multiple series will be required to file a report for each series separately, even if some information is the same for two or more series.[48] Money market funds and SBICs will not be required to file reports on Form N-PORT.[49]

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[46] *See, e.g.*, Comment Letter of Charles Schwab Investment Management, Inc. (Aug. 11, 2015) ("Schwab Comment Letter") ("Form N-Port [sic] will provide substantial additional information to the Commission and strengthen its ability to oversee and carry out its regulatory responsibilities for the asset management industry."); Vanguard Comment Letter ("Vanguard generally supports the proposed reporting initiatives because we believe these reporting obligations will provide the Commission with the tools necessary to monitor portfolio composition and risk exposure among funds, without exposing fund investors to potentially harmful front-running activities."); Comment Letter of Pioneer Investments (Aug. 11, 2015) ("Pioneer Comment Letter") ("Pioneer supports the Commission's effort to modernize the regime whereby funds report information about their portfolio holdings to the Commission."); Comment Letter of the Securities Industry and Financial Markets Association Asset Management Group (Aug. 11, 2015) ("SIFMA Comment Letter I") ("We support the Commission's initiative in proposing monthly reports on Form N-PORT in order to strengthen its regulatory oversight of the asset management industry and protect investors by obtaining more frequent and substantially expanded information about funds, in a structured format."); ICI Comment Letter ("ICI broadly supports the Commission's efforts to update fund reporting.").

[47] *See* new rule 30b1-9.

[48] As further discussed below, in part to harmonize definitions between Forms N-PORT and N-CEN, and in part to parallel identical changes to the definition of "exchange-traded fund" in Form N-CEN, we have revised Form N-PORT's proposed definition of "exchange-traded product" to refer instead to "exchange-traded fund," which as revised includes each series of a UIT that meets that definition. *See* General Instruction E of Form N-PORT; *infra* footnote 896 (discussing changes to definitions in Form N-CEN).

[49] Money market funds already file their monthly portfolio investments with the Commission. *See* Form N-MFP. SBICs are unique investment companies that operate differently and are subject to a different regulatory regime than other management investment companies. They are "privately

We are adopting, as proposed, the requirement that all ETFs 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.[50] ETFs organized as UITs have significant numbers of investors who we believe can benefit from the disclosures required in Form N-PORT.[51] We received no comments on this aspect of the proposal.

One commenter suggested that reports on Form N-PORT should be filed by all registered investment companies, including UITs, in order to have comparable filing information across registered investment products, although the commenter did suggest that less frequent filing requirements might be appropriate based on the structure of the investment company.[52] We note that UITs have fixed portfolios that do not change over time, and thus, unlike most other investment companies which are required to file quarterly reports with their current portfolio holdings, UITs are not currently required to file periodic reports other than on an annual basis.[53] Based on these differences, as reflected in the current reporting regime, we have determined not to extend Form N-PORT filing requirements to UITs that are not ETFs at this time.

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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* SBA, SBIC Program Overview, *available at* https://www.sba.gov/content/sbic-program-overview. As a result of these differences, SBICs are not required to file reports on Form N-Q. As of December 31, 2015, only one SBIC had publicly offered securities outstanding.

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

51 Commission staff estimates that as of December 2015, ETFs organized as UITs represented 12% of all assets invested in registered ETFs. This analysis is based on data from Morningstar Direct.

52 *See* Morningstar Comment Letter.

53 UITs currently file annual reports on Form N-SAR. In contrast, management investment companies currently file reports for their first and third fiscal quarters on Forms N-Q and reports for their second and fourth fiscal quarters on Form N-CSR, as well as semi-annual reports on Form N-SAR. *See supra* footnotes 19–20 and accompanying text.

The same commenter also recommended that reports on Form N-PORT be filed by business development companies ("BDCs").[54] BDCs are a category of closed-end funds that are operated for the purpose of investing in, and providing managerial assistance to, small and developing businesses, and financially troubled businesses. BDCs are not required to register as investment companies under the Investment Company Act although they do elect to be subject to certain specialized provisions, and they are subject to a different reporting regime than registered investment companies.[55] Based on these differences, and as reflected in the current reporting and registration regime, we have determined not to extend Form N-PORT filing requirements to BDCs at this time.[56]

Another commenter suggested that the Commission and the CFTC should agree on and implement a substituted compliance regime.[57] Although we recognize that there are various alternative reporting requirements imposed in other contexts and by other regulators, the reporting requirements imposed by Form N-PORT have been designed specifically to meet the Commission's regulatory needs with regards to monitoring and oversight of registered funds.

Finally, one commenter stated that we should not require funds to directly report information on their own behalf, but instead require other entities such as transfer agents and

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54 *See* Morningstar Comment Letter (recommending that "business development companies…and other [registered investment companies]" should be required to file reports on Form N-PORT).

55 *See* Adoption of Permanent Notification Forms for Business Development Companies; Statement of Staff Position, Investment Company Act Release No. 12274 (Mar. 5, 1982) [47 FR 10518-02 (Mar. 11, 1982)]; and Interim Notification Forms for Business Development Companies, Investment Company Act Release No. 11703 (Mar. 26, 1981) [46 FR 19459 (Mar. 31, 1981)] for a discussion of the regulatory system applicable to BDCs.

56 Although BDCs will not be subject to Form N-PORT filing requirements, the amendments being adopted to Regulation S-X will apply to both registered investment companies and BDCs. *See infra* footnote 700.

57 *See* SIFMA Comment Letter I ("Under our suggested approach, funds required to report on new Form N-PORT would be excused from reporting on Form CPO-PQR.").

custodians to report information on behalf of funds.[58] Given our expertise and experience in regulating, examining, and overseeing funds, including fund reporting, recordkeeping, and compliance, we continue to believe that obtaining such information directly from funds is appropriate.

2. Information Required on Form N-PORT

We are adopting, substantially as proposed, the requirements in Form N-PORT 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. We are adopting these information requirements substantially as proposed, although we are making some modifications from the proposal in response to comments. Each of these is discussed in more detail below.

a. General Information and Instructions

Part A of Form N-PORT requires, as proposed, general identifying information about the fund. This information includes the name of the registrant, name of the series, and relevant file numbers.[59] Funds will also report the date of their fiscal year end, the date as of which information is reported on the form, and indicate if they anticipate that this will be their final

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[58] *See* Federated Comment Letter ("It would also reduce the reporting burden on funds for the Commission to acquire information directly from custodians and transfer agents, which are proficient in maintaining and reporting portfolio holdings and other information.").

[59] *See* 0 and 0 of Form N-PORT. Funds will provide the name of the registrant, the Investment Company Act and CIK file numbers for the registrant, and the address and telephone number of the registrant. Funds will also provide the name of and EDGAR identifier (if any) for the series.

filing on Form N-PORT.[60] This information will be used to identify the registrant and series filing the report, track the reporting period, and identify final filings. No comments were received on this aspect of our proposal. We are adopting these elements as proposed.

As proposed, funds will also provide the Legal Entity Identifier ("LEI") number of the registrant and series.[61] The LEI is a unique identifier generally associated with a single corporate entity and is intended to provide a uniform international standard for identifying counterparties to a transaction.[62] 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 is widely and freely available and not subject to any usage restrictions. Funds or registrants that have not yet obtained an LEI will be required to obtain one, which currently entails a one-time fee of $219 plus $119 per year in annual maintenance costs and fees.[63]

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60 *See* 0 and 0 of Form N-PORT.

61 *See* 0 and 0 of Form N-PORT. The Commission has begun to require disclosure of the LEI in other contexts. *See, e.g.*, Form PF, Reporting Form for Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors, *available at* http://www.sec.gov/rules/final/2011/ia-3308-formpf.pdf; Regulation SBSR-Reporting and Dissemination of Security-Based Swap Information, Securities Exchange Act Release No. 74244 (Feb. 11, 2015) [80 FR 14564 (Mar. 19, 2015)] ("Regulation SBSR Adopting Release").

62 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 requirement to report LEIs if the operation of the LEI system were to change significantly.

63 As of June 30, 2016, the cost of obtaining an LEI from the Global Markets Entity Identifier ("GMEI") Utility in the United States was $200, plus a $19 surcharge for the LEI Central Operating Unit. The annual cost of maintaining an LEI from the GMEI Utility was $100, plus a $19 surcharge for the LEI Central Operating Unit. *See* GMEI Utility, Frequently Asked Questions, *available at* https://www.gmeiutility.org/frequentlyAskedQuestions.jsp.

Commenters were generally supportive of this aspect of our proposal, with most endorsing the use of LEI for identification of funds, as well as for fund counterparties.[64] However, one commenter suggested that certain funds should be permanently exempted from such requirements as such funds would not need an LEI for any other purpose.[65] Lastly, another commenter suggested that, to better assist academic researchers with identification of entities, every filing by a mutual fund should require an exhaustive list of the tickers and CUSIPs associated with that mutual fund.[66]

We are adopting the requirement that funds report LEI information for the registrant and for each series, as proposed. We acknowledge that funds will incur some costs to obtain and maintain an LEI, although we believe the cost to obtain and maintain an LEI identifier is modest.[67] Uniform reporting of LEIs by funds, however, will help provide a consistent means of identification that will facilitate the linkage of data reported on Form N-PORT with data from other filings and sources that is or will be reported elsewhere as LEIs become more widely used by regulators and the financial industry.[68] Using alternate means of identification or providing

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64 *See, e.g.*, Comment Letter of State Street Corporation (Aug. 11, 2015) ("State Street Comment Letter"); Comment Letter of Depository Trust & Clearing Corporation (Aug. 11, 2015); Comment Letter of Interactive Data Pricing and Reference Data LLC (Aug. 10, 2015) ("Interactive Data Comment Letter"); Comment Letter of Global Legal Entity Identifier Foundation (Aug. 5, 2015).

65 *See* Comment Letter of Carol Singer (June 24, 2015) ("Carol Singer Comment Letter") (suggesting that a small closed-end fund that is not listed on an exchange should not be required to obtain an LEI identifier).

66 *See* Comment Letter of Russ Wermers (Aug. 4, 2015) ("Russ Wermers Comment Letter") (arguing that this information could help with the identification of entities. The commenter did not discuss the utility of the LEI specifically).

67 *See supra* footnote 63.

68 *See, e.g.*, Commodities Futures Trading Commission ("CFTC"), CFTC Announces Mutual Acceptance of Approved Legal Entity Identifiers, Press Release: PR6758-13 (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 (Apr. 11, 2014), *available at* http://www.sifma.org/comment-letters/2014/sifma-submits-

exemptions to this requirement could hinder the ability of Commission staff as well as investors and other potential users of this information to use the data on Form N-PORT as discussed above. For these reasons, we anticipate that the benefits of requiring funds to report the LEI number of the registrant and series on Form N-PORT will justify the costs of obtaining and reporting this information, and thus we are adopting this requirement as proposed.

Furthermore, in response to the request that an exhaustive list of the tickers and CUSIPs associated with the fund be reported to help with the identification of entities, we note that Form N-PORT requires funds to report various identifying information, including name of the registrant, Investment Company Act file number of the registrant, CIK number of the registrant, LEI of the registrant, name of each series, EDGAR identifier (if any) for each series, and LEI for each series.[69] We believe this information is sufficient for Commission staff, as the primary user of the form, to identify funds filing reports on Form N-PORT, and could also be useful for investors and other potential users. As discussed further below, funds will also be reporting additional identifying information on Form N-CEN in a structured format that can be used to identify those funds and link information reported by them on Forms N-PORT and N-CEN with information available in other Commission filings and sources that is similarly structured.[70]

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comments-to-fsoc-encouraging-us-regulators-to-adopt-and-use-the-legal-entity-identifiers; Regulation SBSR Adopting Release, *supra* footnote 61.

Commenters to the FSOC Notice expressed support for regulatory acceptance of LEI identifiers. *See, e.g.*, Joint Comment Letter of SIFMA/Investment Adviser Association to FSOC Notice (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).

69 *See* 0 and 0 of Form N-PORT.

70 Form N-CEN requires funds to report additional information for each share class outstanding, including name of the class, class identification number, and ticker symbol. *See* 0 of Form N-CEN.

Form N-PORT also includes general filing and reporting instructions, as well as definitions of specific terms referenced in the form.[71] These instructions and definitions are intended to provide clarity to funds and to assist them in filing reports on Form N-PORT.[72]

Proposed Form N-PORT would have required funds to report information about their portfolios as of the last business day, or calendar day, of the month, but did not provide specific instructions on the appropriate basis for reporting such information, such as whether the information should be reported as of the trade date ("T+0"), which is required for financial reporting purposes, or the trade date plus one day ("T+1"), which is currently permitted under rule 2a-4 for the calculation of funds' net asset values ("NAV"). Several commenters requested clarification on this issue and specifically requested that Form N-PORT allow reporting on a T+1 basis.[73]

Many commenters noted that most funds use T+1 accounting to record their day-to-day transactions, and only convert their records to T+0 for quarterly portfolio holdings reporting purposes on Forms N-CSR and N-Q.[74] These commenters further noted that our proposal would require funds to file monthly reports 30 days after each reporting period, whereas funds currently

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[71] *See* General Instruction 0 (Rule as to Use of Form N-PORT), 0 (Application of General Rules and Regulations), 0 (Filing of Reports), 0 (Paperwork Reduction Act Information), 0 (Definitions), 0 (Public Availability) and 0 (Responses to Questions) of Form N-PORT.

[72] *See id*. For example, General Instructions 0, 0, 0 and 0 provide specific filing and reporting instructions (including how to report entity names, percentages, and dates), General Instructions 0 and 0 provide information about the Paperwork Reduction Act and the public availability of information reported on Form N-PORT, and General Instruction 0 provides definitions for specific terms referenced in Form N-PORT.

[73] *See, e.g.*, ICI Comment Letter; Fidelity Comment Letter; Schwab Comment Letter; Comment Letter of OppenheimerFunds (Aug. 10, 2015) ("Oppenheimer Comment Letter").

[74] *See, e.g.*, Pioneer Comment Letter; Comment Letter of Invesco Advisers (Aug. 11, 2015) ("Invesco Comment Letter"); Schwab Comment Letter; ICI Comment Letter; Comment Letter of the Securities Industry and Financial Markets Association Asset Management Group (Jan. 13, 2016) ("SIFMA Comment Letter II").

have at least 60 days after the end of each fiscal quarter to report similar information on a T+0 basis on Forms N-CSR and N-Q. Accordingly, commenters suggested that allowing funds to file on a T+1 basis would reduce filing burdens relative to requiring reporting on a T+0 basis, while not meaningfully changing the substance of the information reported. One commenter explicitly recommended that funds be allowed to choose whether to file on a T+0 or T+1 basis, so that funds that prefer to align their Form N-PORT reporting with their reporting on Forms N-Q and/or N-CSR could do so, while other commenters that suggested this modification did not specify whether all funds should be required to report on a T+1 basis uniformly.[75]

As discussed above, the Commission did not specify the appropriate basis for reporting, and we agree with commenters that an explicit instruction on the basis on which to report is appropriate. We are persuaded by commenters that explicitly instructing funds file on the same basis for which they calculate their NAV (generally a T+1 basis) would not be as burdensome as instructing all funds to file on a T+0 basis, and would still maintain the utility of the information reported. As noted by commenters, we acknowledge that reporting monthly information on Form N-PORT on a T+1 basis may result in differences between quarterly portfolio holdings information currently reported on a T+0 basis on Forms N-CSR and N-Q. However, any such differences are unlikely to affect the utility of the information for the Commission and other potential users, because our primary purpose for using the information is to analyze and assess the various risks in a particular fund and monitoring risks and trends in the fund industry as a whole, rather than to align the information reported with the fund's financial statements.

Nonetheless, we do not agree that funds should be permitted to file either on the basis of calculating its NAV (generally T+1) or on the basis of how they prepare financial reports (T+0)

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[75] *See* SIFMA Comment Letter I.

at the fund's option, as having funds report their portfolio holdings on different bases would reduce the comparability of the data reported on Form N-PORT among funds and across the industry. Accordingly, we have modified the proposal to add an instruction to Form N-PORT instructing funds that they must report portfolio information on Form N-PORT on the same basis they use to calculate their NAV, which we understand is generally T+1.[76]

Commenters also requested confirmation that different internal methodologies could be applied in responding to certain items on Form N-PORT, such as those that may require subjective judgments on the part of funds.[77] Furthermore, two commenters urged the Commission to explicitly state that funds may make and rely on reasonable assumptions in providing responses to information items on Form N-PORT.[78] In response to these comments, we have modified the proposal by adding an instruction clarifying that in reporting information on Form N-PORT, the fund may respond using its own methodology and the conventions of its service provider, so long as the methodology and conventions are consistent with the way the fund reports internally and to current and prospective investors.[79] This approach, which we have

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[76] See General Instruction 0 of Form N-PORT ("Reports on Form N-PORT must disclose portfolio information as calculated by the fund for the reporting period's ending net asset value (commonly, and as permitted by rule 2a-4, the first business day following the trade date)."). We understand that funds generally calculate their NAV on a T+1 basis pursuant to rule 2a-4, although under certain circumstances funds might record particular transactions on a T+0 basis, such as when correcting a pricing error. The instructions in Form N-PORT are intended to be flexible enough to allow funds to report information on Form N-PORT on the same basis used in calculating NAV.

[77] *See, e.g.,* SIFMA Comment Letter I (requesting confirmation that funds may use classifications generated by existing methodologies or available service providers in reporting country of risk for portfolio holdings); ICI Comment Letter (asserting that funds should have the flexibility to make country of risk determinations using their own good faith judgment).

[78] *See* ICI Comment Letter; Oppenheimer Comment Letter.

[79] *See* General Instruction 0 of Form N-PORT ("Funds may respond to this Form using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors.

modeled after a similar instruction in Form PF, is intended to strike an appropriate balance between easing the reporting burden on funds by allowing them to rely on their existing practices, while still providing useful information to the Commission, investors, and other potential users.[80] The new instruction also explains that funds may explain any of their methodologies, including related assumptions, in Part E of Form N-PORT.[81]

One commenter recommended that we include a definition of "forward contract," that references the settlement time of a contract, noting that from their experience, there are several interpretations of what constitutes a forward contract and without a standard definition, funds might categorize products inconsistently.[82] We disagree that we should define forward contracts with regard to the settlement time, and believe that adopting a specific definition like the one that the commenter suggested could be overbroad or under-inclusive based on the settlement time selected. Also, based on staff experience reviewing fund disclosures, we note that funds have generally been able to classify forwards in their current disclosures even though there is not a specific definition that references the settlement date of the contract. Finally, the approach we are adopting allows flexibility as forward products evolve.

However, the methodologies and conventions must be consistently applied and the Fund's responses must be consistent with any instructions or other guidance relating to this Form.").

80 *See* General Instruction 15 of Form PF. Periodic reports on Form PF must be filed by registered investment advisers with at least $150 million in private fund assets under management. Form PF is designed, among other things, to assist the Financial Stability Oversight Council in its assessment of systemic risk in the U.S. financial system. *See generally* 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").

81 *See* General Instruction 0 of Form N-PORT ("A Fund may explain any of its methodologies, including related assumptions, in Part E.").

82 *See* Comment Letter of T. Rowe Price (Aug. 21, 2015) ("T. Rowe Price Comment Letter").

Similarly, one commenter noted that it is unclear if a credit default swap should be reported as an option or a swap on Form N-PORT since it has the characteristics of both types of investments.[83] As discussed further below, we are revising Form N-PORT to include a clarification that specifically identifies that total return swaps, credit default swaps, and interest rate swaps should all be categorized under the "swap" instrument type.[84]

A few commenters also asked for guidance as to what investments would fall within the category of "other derivatives" in Item C.11.g.[85] The commenters noted that funds already rely upon the definition of "derivatives" provided in U.S. Generally Accepted Accounting Principles ("GAAP") for financial statement reporting purposes and recommended that funds be allowed to rely upon the same definition for determining what to report as "other derivatives" on Form N-PORT (*i.e.*, investments reported as derivatives for financial statement reporting purposes, but that do not fall within the categories of derivatives enumerated in Form N-PORT such as futures, forwards, etc.).[86] We agree that this approach will generally promote consistency in how such

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[83] *See* Morningstar Comment Letter.

[84] *See infra* footnote 340 and accompanying text.

[85] *See* ICI Comment Letter; T. Rowe Price Comment Letter.

[86] *See generally* ASC 815 (Derivatives and Hedging).

We note that definitions related to derivatives have been proposed in other contexts, for example "derivatives transaction" in our recent proposal regarding the use of derivatives by registered investment companies and BDCs. *See* Derivatives Proposing Release, *supra* footnote 7 (defining the term "derivatives transaction" to mean "any swap, security-based swap, futures contract, forward contract, option, any combination of the foregoing, or any similar instrument ('derivatives instrument') under which a fund is or may be required to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination." However, that proposed definition is limited to derivatives transactions where the fund may be required to make a payment or delivery of cash or other assets. In contrast, for purposes of Form N-PORT, we seek to obtain information about all of a fund's derivative investments, regardless of whether the fund has a payment or delivery obligation. As a result of these differences, we continue to believe that it is preferable for Form N-PORT to not incorporate a specific definition, but rather to retain the flexibility to encompass the changing types of products that may evolve and emerge.

information is reported and will provide more certainty to funds reporting "other derivatives" on Form N-PORT, and we understand that funds may choose to utilize this approach. However, we are not requiring that funds do so since we anticipate most derivative investments held by funds will fall within one of the categories of derivatives previously enumerated in Form N-PORT, and thus we expect few investments to be reported within the "other derivatives" category. Moreover, this "other derivatives" category is intentionally designed to be flexible enough to allow funds to capture and categorize investments in the future that are not currently traded by funds, and for these reasons we are not requiring funds to adhere to any specific process in determining what should fall within this category, provided that none of the previously enumerated categories apply.

Several commenters also asked that the definition of "investment grade" be revised to follow standards generally used by the industry by replacing references to liquidity with references to credit quality.[87] In response to these comments, we are removing the definition of "investment grade" that we proposed to be included in Form N-PORT. Consistent with our other changes discussed herein that permit funds to rely on their existing practices and methodologies, Form N-PORT provides funds with the flexibility, in determining what constitutes "investment grade," to generally use their own methodology and the conventions of their service providers, as provided in General Instruction G. Given this clarification in the adopted form, we do not believe any definition of investment grade is necessary.[88]

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87 *See* ICI Comment Letter; Oppenheimer Comment Letter; Pioneer Comment Letter; Comment Letter of MFS Investment Management (Aug. 11, 2015) ("MFS Comment Letter"); Comment Letter of the Dreyfus Corporation (Aug. 11, 2015) ("Dreyfus Comment Letter").

88 *See supra* footnote 79 and accompanying text.

We have also made several changes to certain definitions and instructions related to the way in which funds will provide information on Form N-PORT, largely relating to the formatting of the information reported. Among other things, we have revised the instruction in the proposal that directed funds to respond to every item of the form.[89] As proposed, the instruction would have required funds to respond to each sub-item and item on Form N-PORT even if the item was inapplicable. The revised instruction indicates that funds are not required to respond to items that are wholly inapplicable.[90] For example, no response is required for Item C.11, which concerns derivatives, when reporting information about an investment that is not a derivative. We believe this revision will decrease burdens upon filers and reduce the file size of Form N-PORT submissions, while still maintaining the clarity of the data reported on Form N-PORT.

We have also eliminated certain instructions from proposed Form N-PORT relating to the formatting of information reported on the form that, upon further consideration, we believe are unnecessary in Form N-PORT. In particular, we have eliminated instructions requiring the rounding of percentages, monetary values, and other numeric values.[91] Elimination of the instructions regarding the rounding of such figures should allow funds to report such information in the same way such information is currently recorded in their books and records. We also have eliminated instructions regarding the signature and filing of reports, because we believe that the

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89 *See* General Instruction 0 of proposed Form N-PORT ("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").

90 *See* General Instruction 0 of Form N-PORT ("A Fund is not required to respond to an item that is wholly inapplicable (for example, no response would be required for Item C.11 when reporting information about an investment that is not a derivative). If a sub-item requests information that is not applicable, for example, an LEI for a counterparty that does not have an LEI, respond N/A").

91 *See* General Instruction G of proposed Form N-PORT (instructions regarding rounding of percentages, monetary values, and other numerical values).

general rules and regulations applicable under the Act provide sufficient guidance with regard to those issues.[92]

We have also made clarifying revisions to certain definitions. As discussed above, we have revised the proposed definition of "exchange-traded product" to refer instead to "exchange-traded fund" to harmonize the definitions used in Forms N-PORT and N-CEN[93] The revision also clarifies that a separate report on Form N-PORT must be filed by each series of a UIT organized as an ETF, and parallels similar revisions to the definition of ETF in Form N-CEN.[94] We have also revised the definition of "LEI" to reflect new terminology regarding LEIs.[95]

Finally, regarding General Instruction F, which provides information regarding the public availability of the information in Form N-PORT, the final Instruction clarifies, similar to language that is contained in current Form PF, that we do not intend to make public certain information reported on Form N-PORT "that is identifiable to any particular fund or adviser."[96]

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[92] *See* General Instruction B of Form N-PORT ("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.") *See also* General Instruction H of proposed Form N-PORT (instructions regarding signature and filing of reports).

[93] *See supra* footnote 48 and accompanying text. Although the definition of "exchange-traded fund" being adopted on Form N-PORT is narrower than the definition of "exchange-traded product" as proposed on Form N-PORT, the universe of filers on Form N-PORT is not changing because exchange-traded managed funds that would have been encompassed in the proposed definition of "exchange-traded product" will be encompassed in the adoption through references to managed investment companies. *See* rule 30b1-9 (requiring certain funds to file reports on Form N-PORT); Form N-PORT ("Form N-PORT is to be used by a registered management investment company, or an exchange-traded fund organized as a unit investment trust, or series thereof ('Fund')….").

[94] *See infra* footnote 896.

[95] Form N-PORT's revised definition of "LEI" refers to the legal entity identifier "endorsed" by the Regulatory Oversight Committee Of The Global Legal Entity Identifier System ("LEI ROC") or "accredited" by the Global Legal Entity Identifier Foundation ("GLEIF"), as opposed to "assigned or recognized" by those two entities.

[96] *See supra* footnote 26.

This modification makes clear, for example, that the Commission or Commission staff could issue analyses and reports that are based on aggregated, non-identifying Form N-PORT data, which would otherwise be nonpublic, such as information reported on Form N-PORT for the first and second months of each fund's fiscal quarter.

b. Information Regarding Assets and Liabilities.

Part B of Form N-PORT seeks certain portfolio level information about the fund. As we proposed, Part B includes questions requiring funds to report their total assets, total liabilities, and net assets.[97] Funds will also separately report certain assets and liabilities, as follows. First, as we proposed, funds will report the aggregate value of any "miscellaneous securities" held in their portfolios.[98] As currently permitted by Regulation S-X, and as further discussed below, Form N-PORT permits funds to report an aggregate amount not exceeding 5 percent of the total value of their 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 report to shareholders or otherwise made available to the public.[99] We received only one comment on this aspect of our proposal, which supported the reporting of aggregate information for miscellaneous securities.[100]

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97 *See* 0 of Form N-PORT.

98 *See* 0 and 0 of Form N-PORT. As discussed further below, Form N-PORT will require funds to also report information about miscellaneous securities on an investment-by-investment basis, although such information will be nonpublic and will be used for Commission use only. *See infra* footnote 420 and accompanying text.

99 *See* rule 12-12 of Regulation S-X; *see also* Parts C and D of Form N-PORT.

100 *See* SIFMA Comment Letter I.

Second, as we proposed, funds will 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").[101] We received no comments on this aspect of the proposal. Some funds use CFCs for making certain types of investments, particularly commodities and commodity-linked derivatives, often for tax purposes. Form N-PORT requires funds to disclose each underlying investment in a CFC, rather than just the investment in the CFC itself, which will increase transparency on fund investments through CFCs.[102] These disclosures will allow investors to look through CFCs and understand the specific underlying holdings that they are investing in, which will in turn allow investors to better analyze their fund holdings and risk, and hence enable investors to make more informed investment decisions.

In addition, as discussed further below in section II.D.4, we believe it will be beneficial for the Commission to have certain information about funds' use of CFCs. The information we will be obtaining in Form N-PORT, combined with additional information we are requiring on Form N-CEN regarding CFCs, discussed below, will 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.

Third, as we proposed, we are requiring that funds report the amounts 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-

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[101] *See* General Instruction 0 (providing that "Controlled Foreign Corporation" has the meaning provided in section 957 of the Internal Revenue Code [26 U.S.C. 957]) and 0 (requiring funds to report assets invested in controlled foreign corporations) of Form N-PORT.

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

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.[103] We received no comments on this aspect of the proposal. This information will allow Commission staff, as well as investors and other potential users, to better understand a fund's borrowing activities and payment obligations associated with these transactions. This in turn will facilitate analysis of the fund's use of financial leverage, as well as the fund's liquidity profile and ability to meet redemptions or share repurchases, which are important to understanding the risks such borrowings might create.

One commenter suggested that certain fee and expense information currently reported on Form N-SAR, and Item 75 of Form N-SAR in particular—which relates to average net assets during the current reporting period—be reported on Form N-PORT.[104] The commenter acknowledged that much of this information is already publicly reported in or can be derived from information reported in other fund documents filed with the Commission, but argued that this information should also be reported on Form N-PORT because the structured format of Form N-PORT would make information reported on Form N-PORT easier to aggregate and analyze.[105] We are not making this suggested change because similar and complementary information will be reported on Form N-PORT in a structured format going forward (*i.e.*, monthly net assets for funds more generally) and is currently available in a structured format for

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[103] *See* 0–0 of Form N-PORT.

[104] *See* Morningstar Comment Letter.

[105] *Id*.

mutual funds in their risk/return summaries (certain fee and expense data).[106] Also, as discussed further below, we are revising Form N-CEN to require funds to report average net assets on an annual basis.[107]

For these reasons, we are adopting this aspect of Form N-PORT as proposed.

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 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.[108]

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 disclosure documents do not always provide a complete picture of a fund's exposure to changes in asset

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[106] *See* SEC, Interactive Data and Mutual Fund Risk/Return Summaries, *available at* https://www.sec.gov/spotlight/xbrl/mutual-funds.shtml; 0 of Form N-PORT (requiring funds to report monthly flow information).

[107] *See infra* footnotes 1016-1017 and accompanying text.

[108] *See, e.g.*, section 408 of the Sarbanes-Oxley Act of 2002, Pub. L. 107-204, 116 Stat. 745, 790-791 (2002) (requiring the Commission to engage in enhanced review of periodic disclosures by certain issuers every three years).

prices, particularly as fund strategies and fund investments become more complex.[109] 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 the staff's outreach to funds prior to our proposal, 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.[110]

Accordingly, we believe, and some commenters agreed, that it is appropriate to require funds to report quantitative measurements of certain risk metrics that will provide information beyond the narrative, often qualitative disclosures about investment strategies and risks in the fund's registration statement.[111] Monthly reporting on these risk measures, in particular, will 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.[112]

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[109] *See* Morningstar Comment Letter.

[110] *See* Proposing Release, *supra* footnote 7, at 33598.

[111] *See* Morningstar Comment Letter (noting a range of fund disclosures relating to fund synthetic disclosures, with some more helpful to investors than others); Franco Comment Letter (supporting the Commission's proposal relating to disclosures of risk metrics).

[112] *See* Morningstar Comment Letter.

Specifically, we proposed to require certain funds to report 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.[113] As discussed in section II.A.2.g below, we proposed to require risk measures at the investment level for options and convertible bonds. We continue to 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. As a result, we are adopting these risk measures substantially as proposed, subject to the modifications discussed below.[114]

While we received some comments generally supporting our proposal to require portfolio-level risk metrics,[115] some suggested alternative methods for collecting risk metrics,[116]

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[113] *See* Item B.3 of proposed Form N-PORT.

[114] *See* 0 of Form N-PORT.

[115] *See, e.g.*, SIFMA Comment Letter I ("We support the Commission's proposal to require funds to provide the Commission with portfolio level risk metrics, and generally would defer to the Commission as to the information the Commission would consider useful for its regulatory purposes."); State Street Comment Letter; Wells Fargo Comment Letter ("We are in agreement with the Commission's request for risk metrics as it relates to duration and spread duration; however, we suggest that the calculation for providing such risk metrics are defined differently than proposed.").

[116] *See, e.g.*, BlackRock Comment Letter (Commission should use the same interest rate and credit risk questions as is required in Form PF; Commission should consider implementing a reporting requirement to obtain a comprehensive measure of fund's use of leverage); Morningstar Comment Letter (but also urging the Commission to collect more position level information which will enable the Commission, investors, and service providers to independently calculate risk); *see also* Interactive Data Comment Letter ("[P]osition level reporting aligns with what is standard practice in the industry and so would not be burdensome. Position level reporting would provide the Commission with greater insight into sources of risk within a portfolio."); Comment Letter of Simpson Thacher & Bartlett LLP (Aug. 11, 2015) ("Simpson Thacher Comment Letter") (derivatives reporting should focus on portfolio-level risk metrics, such as "value at risk" models)

or opposed our proposal to make certain of the risk metrics public.[117] These comments are discussed in more detail below.

We believe, and some commenters agreed, that institutional investors, as well as entities that provide services to both institutional and individual investors, could 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. As discussed further below, however, other commenters, were mixed as to whether this information would be useful for investors and if this information should be made public.[118] These measures can complement the risk disclosures that are contained in the registration statement, thereby potentially helping investors to make more informed investment choices. Accordingly, we disagree with commenters that argued this information has no utility for investors. We also continue to believe that requiring 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 debt than they currently have.[119] As

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[117] *See, e.g.*, Comment Letter of the Independent Directors Council (Aug. 11, 2015) ("IDC Comment Letter"); SIFMA Comment Letter I; Simpson Thacher Comment Letter; Invesco Comment Letter; Schwab Comment Letter; ICI Comment Letter; Comment Letter of Dechert LLP (Aug. 11, 2015) ("Dechert Comment Letter") (or, in the alternative, include a disclaimer that risk metrics are an estimate); T. Rowe Price Comment Letter; BlackRock Comment Letter; Oppenheimer Comment Letter. Our decision to make [certain] Items in Parts C, D, and E of the Form non-public is discussed in more detail below. *See infra* section 0.

[118] *See* Franco Comment Letter (Noting that the information on Form N-PORT is relevant to information intermediaries and market professionals and would assist them in assessing individual fund performance or comparing among funds); *see also* Morningstar Comment Letter (same); *but see* Invesco Comment Letter (stating that Form N-PORT's disclosures would not complement fund registration statements, nor be useful in helping investors make more informed investing decisions); SIFMA Comment Letter I (same); Federated Comment Letter.

[119] *See* Franco Comment Letter ("The rule proposal's various disclosure and reporting requirements, especially those requirements relating to portfolio disclosure, risk metrics and fund use of derivatives, serve the public interest and/or the protection of investors.").

discussed further in Section II.A.4 below, we are adopting, largely as proposed, the requirement that funds provide public disclosure of portfolio-level risk metrics on a quarterly basis.[120] For these reasons, and as discussed further below in section II.A.4, we were not persuaded by commenters that such information should be nonpublic.

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 can help them analyze how portfolio values might change in response to changes in interest rates or credit spreads.[121] 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 proposed that a fund that invests in debt instruments, or derivatives that provide notional exposure to debt instruments or interest rates, representing at least 20% of the fund's net asset value as of the reporting date, provide a portfolio level calculation of duration and spread duration across the applicable maturities in the fund's portfolio.[122]

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[120] *See* 0 of Form N-PORT; *see also generally* Proposing Release, *supra* footnote 7, at n. 56 and accompanying text.

[121] 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.

[122] Specifically, as proposed, funds would have calculated 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, and 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* proposed Instruction to 0 of Form N-PORT.

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 to Derivatives Concept Release (Nov. 7, 2011) ("Morningstar Derivatives Concept

Commenters were generally supportive of our proposal to include a threshold.[123] However, several commenters requested that we increase the threshold for risk reporting from 20% and that the calculation of debt investments be made based on the fund's three-month average notional value of debt investments as a percentage of NAV.[124] Some commenters requested an increase in the threshold in order to make the risk metric threshold more consistent with the Commission's threshold for requiring funds to disclose industry concentration in their prospectus.[125] Additionally, some commenters argued that the three-month average would better reflect a fund's true investment strategy and mitigate short-term market fluctuations that could cause a fund to temporarily exceed the threshold. [126] We agree with both recommendations.

Release Comment Letter") (submitted in response to the Derivatives Concept Release, *supra* footnote 38, which sought comment regarding the use of derivatives by management investment companies).

123 *See, e.g.,* Interactive Data Comment Letter (supporting 20% level as reasonable and stating belief that threshold should be measured by considering notional value for derivatives and market values for bonds); State Street Comment Letter (supporting 20% threshold and recommending that the Commission provide clarity on the threshold calculation); Fidelity Comment Letter; Franco Comment Letter; Simpson Thacher Comment Letter (20% threshold and holds more than 100 debt securities); Wells Fargo Comment Letter (supporting 20% threshold).

124 *See, e.g.*, Oppenheimer Comment Letter (25% threshold consistent with prospectus disclosure of industry concentration); ICI Comment Letter (same); MFS Comment Letter (25% threshold); Pioneer Comment Letter (same); Dreyfus Comment Letter ("we believe the Commission should consider a 25% threshold because, at least, it would define a subset of 'balanced' and 'asset allocation' funds that would, by prospectus or name test mandate, for example, have to maintain a minimum fixed income exposure."); SIFMA Comment Letter I (recommending a 30% threshold); Invesco Comment Letter (same); *but see* Morningstar Comment Letter (supporting 20% threshold).

125 *See, e.g.*, ICI Comment Letter; Oppenheimer Comment Letter; MFS Comment Letter; Pioneer Comment Letter; Dreyfus Comment Letter; *see also* Instruction 4 to Item 9(b)(1) of Form N-1A ("Disclose any policy to concentrate in securities of issuers in a particular industry or group of industries (i.e. investing more than 25% of a Fund's net assets in a particular industry or group of industries)."); Registration Form Used by Open-End Management Investment Companies, Investment Company Act Release No. 23064 (Mar. 13, 1998) [63 FR 13916 (Mar. 23, 1998)] at nn. 100-101 and accompanying text ("...the Commission continues to believe that 25% is an appropriate benchmark to gauge the level of investment concentration that could expose investors to additional risk.").

126 *See, e.g.,* ICI Comment Letter; MFS Comment Letter; Dreyfus Comment Letter.

We believe that a 25% threshold, as several commenters suggested, will still allow the Commission to receive measurements of duration and spread duration from funds that make investments in debt instruments as a significant part of their investment strategy because we do not believe many, if any, funds that make investments in debt instruments as a significant part of their investment strategy have less than 25% of their NAV invested in such instruments. Commenters persuaded us that some funds that primarily invest in assets other than debt instruments, such as equities, could, at times, have more than 20% of the net asset value of the fund invested in debt instruments for cash management or other purposes.[127] Thus raising the threshold from 20% to 25% will relieve more funds of having to monitor each month whether they trigger the requirement for making such calculations, while still achieving the goal the Commission stated in the Proposing Release of requiring funds that make investments in debt instruments as a significant part of their investment strategy to report such metrics.[128]

We agree with commenters that using the same thresholds we use for discussing industry concentration in current prospectuses is appropriate as it will achieve an objective that is similar to the one in Form N-1A of requiring funds to disclose only where such investments are a central part of the fund's investment objectives. We are therefore adopting a 25% threshold for reporting portfolio-level risk metrics.[129]

We are also modifying the rule from the proposal to require funds to calculate this threshold on the *three-month average* of a fund's value as percentage of NAV (rather than, as proposed, value as percentage of NAV at the *reporting date* (*i.e.* month-end)) because we agree

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[127] *See, e.g.* Pioneer Comment Letter.

[128] *See, e.g.*, State Street Comment Letter.

[129] *See supra* footnote 125.

with commenters who pointed out that this should mitigate the chance that short-term market fluctuations could cause a fund that does not typically use such instruments as part of its investment strategy to temporarily exceed the threshold and be required to report the metrics.[130]

Finally, another commenter opposed requiring risk metrics data for index funds because it believed that this requirement would be unnecessarily burdensome for those funds.[131] However, index funds incorporate a wide variety of funds – some of which are primarily invested in debt securities, including derivatives based on debt securities. It is our view that if a fund is exposed to debt instruments or interest rates in amounts that trigger the reporting of risk metrics, they have an exposure large enough to warrant reporting. Moreover, some index funds have indexes that change weekly or daily. Accordingly, because we believe it is important to monitor the risk metrics for all funds with exposures to debt instruments exceeding the threshold, we do not believe it would be appropriate to exempt index funds from Form N-PORT's requirements for risk metric reporting.

For duration, we proposed 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

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[130] *See* 0 of Form N-PORT; *see, e.g.* Pioneer Comment Letter; Oppenheimer Comment Letter. One commenter requested that the threshold be based on the fund's net asset value and not notional value. *See* MFS Comment Letter. We continue to believe that basing the threshold on notional amount, especially for derivatives, is a better measure of a fund's exposure than the just the investment's value because some derivatives may have a negligible net asset value, but represent significant exposures to the fund. We have, however, made a clarifying change to the terminology from the proposal, and instruction B.3 now refer to "value" rather than "notional value." *See infra* footnote 165

[131] *See* ICI Comment Letter.

applicable currency in the fund.[132] We realized 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, we proposed that a fund only report the key rates that are applicable to the fund. We proposed that funds report zero for maturities to which they have no exposure.[133] For exposures outside of the range of listed maturities listed on Form N-PORT, we proposed that funds include those exposures in the nearest maturity.

One commenter stated that calculating DV01 along key rates of the Treasury curve is "common and intuitive" to analyzing shifts of the yield curve.[134] However, some commenters suggested that calculating the DV01 and SDV01 for 11 proposed key rates could be burdensome, and requested that we limit the number of applicable key rates along the risk-free curve.[135] For example, commenters recommended that the Commission limit the calculations to the key rates to those most representative of bond fund overall exposures by limiting the calculation to the 1-, 2-, 5-, 10-, 20-, and 30-year rates.[136] Another commenter recommended collapsing the 1-, 3-, and 6-month exposures into the 1-year exposure, as a detailed breakout inside 1-year is not informative for most instruments.[137] Commenters argued that reducing the number of key rates will reduce burdens for fund companies while providing the Commission with sufficient

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[132] *See* Item B.3.aof proposed Form N-PORT.

[133] For funds with exposures that fall between any of the listed maturities in the form, we proposed in the Instructions to 0 that funds use linear interpolation to approximate exposure to each maturity listed above.

[134] *See* Wells Fargo Comment Letter.

[135] *See, e.g.,* Fidelity Comment Letter; Dreyfus Comment Letter; Simpson Thacher Comment Letter.

[136] *See* Dreyfus Comment Letter; Simpson Thacher Comment Letter.

[137] *See* Fidelity Comment Letter.

information on yield curve exposures for staff analysis.[138] Finally, one commenter suggested that we only require a single measure of duration (*i.e.*, total portfolio duration) that is the weighted average of the top 5 currencies (including the base currency) rather than providing duration calculations for key rates along the Treasury curve, arguing that a single measure would capture the majority of a fund's portfolio risk.[139]

We continue to believe that requiring funds to provide further detail about their exposures to interest rate changes along the risk-free rate curve will 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 5 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, matched with a short position in shorter-term bonds. While both funds would have 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 DV01 calculations along the risk-free interest rate curve, as opposed to a single measure of duration suggested by one commenter, will clarify this difference. Moreover, as one commenter noted, "DV01 and SD01 [spread duration] are likely the measures that will be least subject to differences based on assumptions within risk models employed by fund companies" and therefore minimizes variation based on the disparate risk metrics models used by funds.[140]

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[138] *See id.;* Dreyfus Comment Letter.

[139] *See, e.g.*, ICI Comment Letter (suggesting as an alternative, a single duration measurement that is the weighted average of the top 5 currencies (including the base currency)); SIFMA Comment Letter I (duration disclosure should be limited to top 5 exposures); ICI Comment Letter (report only total portfolio duration and credit spread duration– i.e., single measures – rather than multiple points along the yield curve).

[140] *See* Morningstar Comment Letter.

The Commission staff will use this information to better understand how funds are achieving their exposures to interest rates, and to perform analysis across funds with similar strategies to identify outliers for potential further inquiry, as appropriate.

We were, however, persuaded by commenters that reducing the number of key rates that funds must report could reduce the reporting burden, while still providing the staff with sufficient information and flexibility to analyze how debt portfolios will react to different interest rates and credit spreads along the Treasury curve. We are therefore modifying this requirement from the proposal to require fewer key rates—specifically 3-month, 1-year, 5-year, 10-year, and 30-year—which will provide, as commenters suggested, the rates most representative to bond funds' overall exposures. The key rates Form N-PORT will require, as adopted, are substantially similar to the key rates suggested by commenters;[141] however, we believe that some granularity for short term debt is important, especially in the context of short and ultra-short duration funds, and therefore, unlike the commenters' suggestions for collapsing all short-term exposures to one-year, Form N-PORT will require reporting for the 3-month maturity.[142]

Form N-PORT will also require, as proposed, funds to provide the key rate duration for each applicable currency in a fund. One commenter recommended that we limit the duration to the top 5 currencies.[143] Some commenters requested that we not include currency in the reporting of duration for funds because currency risk is not relevant to duration.[144] Others

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[141] *See* Dreyfus Comment Letter; Simpson Thacher Comment Letter; Fidelity Comment Letter.

[142] *See* Item B.3.a and 0of Form N-PORT; *see also* 0 of Form N-PORT; *see also* Fidelity Comment Letter (collapse the 1-, 3-, and 6-month exposures into the 1-year exposure, as a detailed breakout inside 1-year is not informative for most instruments); Dreyfus Comment Letter (focus should be on portfolio level statistics; alternative six key rates 1-, 2-, 5-, 10-, 20, and 30-years).

[143] *See, e.g.*, SIFMA Comment Letter I.

[144] *See, e.g.*, Dreyfus Comment Letter.

supported a *de minimis* reporting threshold for exposure to different currencies that would be based on the notional value of the instruments, relative to NAV.[145] These commenters noted that including all currency exposures, regardless of size, would result in a long list of exposures that would have little impact on a fund.[146] As a result, the commenters believed that the Commission would receive data that would add little to the staff's ability to understand a fund's portfolio risk, but would add significant reporting and compliance burdens to funds.[147]

We continue to believe that funds should generally be required to provide the key rate duration for each applicable currency in the fund in order to understand interest rate risk to funds with significant currency risk. Nonetheless, we were persuaded by commenters that a *de minimis* threshold is appropriate. Based on staff experience analyzing similar data, however, we believe that a 5% *de minimis*, as suggested by some commenters, could hinder the staff's ability to measure smaller fund exposures that could have large effects across the fund industry as a whole. We agree with one comment that Form N-PORT should provide for a 1% *de minimis* threshold, calculated as the notional value of relevant investments in each currency relative to the fund's NAV.[148] We believe that setting the *de minimis* at this level will balance the need for the staff to identify and monitor not only a fund's currency risk, but also the risks of small fund positions that could aggregate into large positions across the industry, as the Commission will still be receiving information about the majority of a fund's currency exposures with this threshold.

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[145] *See* CRMC Comment Letter (supporting a 5% *de minimis* threshold for currencies); MFS Comment Letter (same); SIFMA Comment Letter I (same); ICI Comment Letter (5% or top 5 currencies or those currencies representing at least 50% of the portfolio's exposure); Morningstar Comment Letter (same); Oppenheimer Comment Letter (one percent).

[146] *Id*.

[147] *Id*.

[148] SIFMA Comment Letter I.

For both duration and spread duration, we proposed 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. As we noted in the Proposing Release, based on staff outreach, we believed 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.[149] We requested comment on whether we should require or permit funds to report a larger change in interest rates or credit spreads, such as 5 or 25 basis points.

Additionally, while we did not propose requiring convexity, the Commission also considered and requested comment on whether funds should be required to report convexity, which facilitates more precise measurement of the change in a bond price with larger changes in interest rates because this measure captures changes in the shape of the yield curve.[150]

Commenters suggested that we adopt risk metrics that would provide a better measure of risk over time than just DV01.[151] For example, one commenter, noting that, while DV01 and SDV01 are typically used as daily risk measures, larger shifts in the curve, such as DV25 or

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149 *See* Proposing Release, *supra* footnote 7, at 33600. *See also* Morningstar Comment Letter ("The use of a bottom-up approach and the limited movement of 1 basis point are likely to provide standardization.").

150 *See* Proposing Release, *supra* footnote 7, at 33600. 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 (8th ed., 2012) at 149–152.

151 *See* Morningstar Comment Letter; *see also* Interactive Data Comment Letter (noting that fund managers often consider moves greater than 1 basis point when managing interest rate risks in their portfolios, particularly for funds with exposure to bonds with call or prepayment risk.).

DV50, may be appropriate for measures with a significant lag, such as reporting on Form N-PORT.[152]

We also received several comment letters recommending that we include a measure of convexity as it is a valuable method of measuring the change of the shifting yield curve, as well as a comment to require stress tests of the portfolio of small and large changes in spreads, interest rates, and volatility.[153] We agree with commenters that a measurement that captures larger changes in the yield curve will be useful. We additionally agree with commenters that argued that a measure for changes in the shape of the yield curve such as convexity would be useful, but are sensitive to the burdens that requiring a measurement of convexity may impose on filers that do not currently calculate convexity internally.

Accordingly we believe that requiring a risk measure that shows the effect of a larger change in interest rates, coupled with DV01 as we proposed, both provides information that commenters said would be useful (*i.e.*, how the exposure changes with different changes in interest rate), while not requiring filers that do not calculate convexity internally to begin to do so. We are therefore adopting a requirement that funds provide both DV01[154] (a one basis point change in interest rate) and DV100 (a 100 basis point change in interest rates).[155] Based on staff experience, we believe that DV100 is among the most common measures of interest rate sensitivity and it will, in conjunction with DV01, provide more useful information about non-

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[152] *See* Morningstar Comment Letter (also noting that DV01 and SDV01 are less likely to be subject to model risk).

[153] Interactive Data Comment Letter ("portfolio managers consider convexity to be critical when measuring the interest rate risk of their funds"); Dreyfus Comment Letter ("Convexity is valuable as a risk measure because it captures the change in the curvature (the 'flattening' or 'steepening') of the shifting yield curve.").

[154] *See* 0 of Form N-PORT.

[155] *See* 0 of Form N-PORT.

parallel shifts in the yield curve than smaller measures, such as DV25 and DV50. Moreover, DV100 will allow the staff to capture larger changes to interest rates (and corresponding "shocks" to the markets) than DV25 and DV50. Finally, based on staff experience, it is our belief that DV100 is a standard measure of interest rate sensitivity and is a common measure of duration and is therefore unlikely to require filers to change current internal measurement practices, thereby mitigating the increase in reporting costs relative to the proposal.

We also proposed to require that 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.[156] This would measure the fund's sensitivity to changes in credit spreads (*i.e.*, a measure of spread above the risk-free interest rate). 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.

One commenter stated that spread duration is a more representative measure of bond fund portfolio risk than duration alone because it "captures both interest rate risk and credit risk" and that staff should therefore use spread duration when analyzing funds.[157] However, that commenter and others recommended that we require funds to report a single spread duration for the portfolio, as spread rates are generally calculated as a parallel shift, making calculations at

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[156] As proposed, Form N-PORT would have included 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* proposed General Instruction E of Form N-PORT. As discussed above in section 0, we received comments relating to our proposed definition of "Investment Grade". For the reasons discussed above, we have determined to remove these definitions from the Form.

[157] *See* Dreyfus Comment Letter.

key rates less useful than they are for analyzing shifts in interest rates.[158] Because credit spreads can vary based on the maturity of the bonds, we continue to believe that providing credit spread measures for the key rates along the yield curve, as with DV01, will help the Commission and its staff better analyze credit spreads of investments in funds than a single measure for the entire portfolio. For example, this data could be 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.[159]

For the same reasons discussed above for interest rate risk, however, we are limiting the required key rates for credit spread risk to 3-month, 1-year, 5-year, 10-year, and 30-year.[160] Commenters also suggested either only requiring spread duration (as opposed to both credit and spread duration) or further refining the measure of credit spreads, for example, by breaking out government related spreads from other investment-grade spreads.[161] However, we continue to believe that our current measure of spread risk provides adequate information to the staff, investors, and other potential users to better understand industry and fund credit spreads, and the

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158 *See supra* footnotes134-137; *see, e.g.*, Wells Fargo Comment Letter (noting that, unlike interest rate spreads, credit spreads are not typically calculated at all key rates); Fidelity Comment Letter ("A single CR01 without reference to maturity is a standard risk metric and should be familiar to market participants."); Dreyfus Comment Letter (recommending a single measure for spread duration); ICI Comment Letter (same).

159 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.

160 *See* 0 of Form N-PORT.

161 *See, e.g.*, Fidelity Comment Letter (Suggesting breaking out government-related credit spreads from other investment-grade credit spreads because it would be more useful for monitoring fund credit risk); Dreyfus Comment Letter ("Spread duration is a more important measure of overall bond fund portfolio risk than duration alone because it captures both interest rate risk and credit risk.").

risk associated with credit spreads, while appropriately balancing the costs of calculating such measures. We are therefore adopting the credit spread risk as proposed, subject to the previously discussed key rate refinements discussed above.[162]

We also proposed to include an instruction to Item B.3 to assist funds with calculating the threshold and to allow better comparability among funds. One commenter recommended that our proposed calculation for the threshold, which the proposal defined as "notional value," include the "contract value of each futures contract for which the underlying reference asset or assets are debt securities or an interest rate."[163] The commenter noted that funds may use fixed income futures for similar purposes as fixed income swaps, for example, to adjust duration, and including futures in the calculation would give the Commission more accurate reporting and is consistent with how the industry typically does these types of calculations.[164] We agree and are modifying our instructions to require that funds include futures in the calculation of notional value.[165]

Another commenter noted that non-investment grade portfolios often hold "equity-like securities," such as convertible bonds and preferred stocks.[166] The commenter argued that DV01 is not appropriate for these types of portfolios and requested that Form N-PORT clarify how

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[162] *See* 0 of Form N-PORT.

[163] *See* CRMC Comment Letter.

[164] *Id*.

[165] We have also decided to make a clarifying change by using the term "value" as opposed to the proposal's "notional value." We believe that this could reduce confusion in the reporting of these measures. Since our proposed calculation of "notional value" requires the sum of "absolute" values, which may be different than how funds currently define "notional value," we are changing the instructions from requiring notional value to requiring "value," which is defined to include the notional value of certain derivatives instruments. *See* Instruction to Item B.3 of Form N-PORT. Moreover, this is consistent with Form PF which describes "value" in General Instruction 15. *See* General Instruction 15 of Form PF.

[166] *See* Fidelity Comment Letter.

funds should calculate interest-rates in such situations.[167] Other commenters suggested that we further refine our proposed methodology by providing more details relating to the relevant interest rate and credit spread calculations such as whether the credit spread to be shifted is the nominal or option adjusted spread (OAS).[168] In determining the proposed methodology for the 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 proposed methodology was 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.

While the Commission continues to believe that the methodologies for reporting duration and spread duration will allow for better comparability across funds, as discussed above, we are adopting a new instruction to Form N-PORT, subject to the specific instruction in Item B.3 to calculate value, that funds may use their own internal methodologies and the conventions of their service providers, which should help minimize reporting burdens.[169] As in Form PF, we believe that this approach strikes an appropriate balance between easing the burdens on funds by allowing them to rely on their existing practices while still providing the Commission's staff

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[167] *Id*.

[168] *See, e.g.*, Interactive Data Comment Letter (Clarify whether interest rate shifts should be applied to a par yield curve or a spot yield curve and specify that the measurement procedure should include shifting rates both upward and downward. Clarify whether the curve segments should be defined based on maturity or average life, particularly for amortizing assets such as MBS and consider excluding certain issues, such as US treasuries; clarify whether the credit spread to be shifted is the nominal or option adjusted spread (OAS) and recommending OAS.); State Street Comment Letter (requesting clarity whether the Commission wants notional value versus delta adjusted or duration equivalent value, but also suggesting that the SEC should not be too prescriptive and give managers discretion within guidelines, so long as they can validate and justify their approach.).

[169] *See* General Instruction 0 of Form N-PORT.

with comparable data across the industry.[170] However, we agree with the commenter that requested that we clarify whether the shift is the nominal or option-adjusted spread. We believe that measuring credit risk by shifting option adjusted spread provides a more robust measure of credit risk for investments with embedded optionality because it captures how embedded options alter the payment obligations of counterparties.[171] Thus measuring credit risk by shifting the option adjusted spread will allow the Commission and other interested parties to more accurately monitor this effect. We are therefore adding one clarification to Item B.3.c., Credit Spread Risk, to clarify that funds should provide the change in value of the portfolio from a 1 basis point change in credit spreads where the shift is applied to the option adjusted spread.[172]

While we proposed that funds provide a calculation of each of these measures at a portfolio level, we also considered whether to require, and requested comment on the alternative that, instead, funds report these risk metrics for each debt instrument or derivative that has an interest rate or credit exposure.[173] We had asked what the benefits would be to having more precise data for analysis of various movements in interest rates and credit spreads.

Several commenters supported reporting at the portfolio-level rather than at the position-level.[174] One commenter suggested that, rather than report risk measures at the portfolio-level,

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[170] *See* Form PF Adopting Release, *supra* footnote 80, at n. 187 and accompanying text Based on staff experience, we believe that we will still find the data useful even when funds use different methodologies, despite the fact that varying methodologies could reduce the comparability of data across funds because this data will still provide information that can be compared to a fund's previous filings, as well as a baseline measurement for the industry that can be monitored for changes from one month to the next.

[171] *See also* Interactive Data Comment Letter.

[172] *See* 0 of Form N-PORT.

[173] *See* Proposing Release, *supra* footnote 7, at 33601.

[174] *See, e.g.*, SIFMA Comment Letter I (supporting the Commission's proposal to require funds to provide the Commission with portfolio level risk metrics and requesting that the information not be

funds should report risk exposures at the position-level, as this is current industry practice and would therefore not be burdensome.[175] Other commenters generally noted that providing position specific details would better enable investors and service providers to calculate risk, without relying on the reporting fund's models or assumptions.[176] Finally, another commenter recommended that the Commission, with respect to derivatives, focus on metrics based on a portfolio-level analysis, as such an analysis would more accurately reflect a fund's use of, and net exposure to, derivatives.[177]

As discussed in the Proposing Release, we believe that most funds likely 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. Therefore, on balance, we continue to believe 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. We also believe that there are certain efficiencies for the Commission, its staff, 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

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made public); Wells Fargo Comment letter (supporting the Commission's request for duration and spread duration, but suggesting that the calculation for providing risk metrics be defined differently).

[175] *See* Interactive Data Comment Letter (recommending that the Commission consider several alternatives, including requiring funds to report aggregate risk metrics at the asset class level and composite portfolio-level, and to require risk metric calculations to account for the "interactions among the investments being aggregated.").

[176] *See* Morningstar Comment Letter; Vanguard Comment Letter.

[177] *See* Simpson Thacher Comment Letter.

of the data by not requiring users of the information to calculate the portfolio-level measures from the position-level measures.[178]

In order to allow better comparability among funds, some commenters recommended that the Commission omit risk metrics in favor of more data on the specific investments, stating that raw data would allow the staff, investors, and other potential users to perform their own risk calculations.[179] According to the commenters, providing position specific details would better enable investors and service providers to calculate risk, without relying on the reporting fund's models or assumptions.[180] While we agree that reporting raw data on specific investments would provide users of the data with more flexibility in calculating risk, we do not believe that the benefits of reporting this information sufficiently justify the burdens of requiring funds to report substantially more detailed information on Form N-PORT at this time. Moreover, as discussed above, we believe that requiring funds to report the portfolio-level risk measures required on Form N-PORT, as well as delta for options, warrants, and convertible securities, which is discussed further below in section II.A.2.g.iv, provides the Commission, investors, and other potential users with a sufficient level of granularity for purposes of analysis at this time.

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[178] Commenters also requested that we clarify that the fixed income exposure as calculated by a top tier in a fund-of-fund investment structure would not include the top tier fund's exposure to the underlying fund's exposure to debt. *See* ICI Comment Letter; MFS Comment Letter. Since Item B.3 requires aggregated portfolio-level risk metrics, we generally would not expect funds to look through to the underlying funds' holdings. Rather, funds only will need to look to the top level fund investments in calculating their exposure to risk measures.

[179] *See, e.g.*, Vanguard Comment Letter; Morningstar Comment Letter ("Rather than collecting model assumptions or additional standardization of the calculations, we believe providing additional detail with position information, specifically for bespoke derivatives and syndicated loans, will enable investors and service providers to independently calculate risk measures based on a model of the investor's choice.").

[180] *Id*.

Finally, commenters requested that we collect alternative risk metrics, such as the same interest rate and credit risk questions as are required by Form PF in order to improve the interoperability of the data collected for private funds and registered investment companies.[181] However, while some of our Form N-PORT risk metric disclosures are based on Form PF, for the reasons stated above, the position-level information that we will receive in reports on Form N-PORT make more detailed reporting unnecessary for registered funds.[182] Another commenter suggested that we focus on alternative portfolio-level risk metrics, such as Value at Risk ("VaR").[183] Based on staff experience, for purposes of monitoring a fund's sensitivity to changes in interest rates and credits spreads , we believe that requiring funds to calculate duration and spread duration along key rates will provide the Commission with more sensitive information than would be provided by an overall portfolio-level risk metric such as VaR. Accordingly, we are not adopting these suggested alternative risk metrics.

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. To protect the fund from the risk of borrower default (*i.e.*, the borrower

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[181] *See, e.g.*, BlackRock Comment Letter (Commission should use the same interest rate and credit risk questions as is required in Item 42 of Form PF; Commission should consider implementing a reporting requirement to obtain a comprehensive measure of fund's use of leverage); Simpson Thacher Comment Letter. Item 42 of Form PF requires an adviser to report the impact on the fund's portfolio from specified changes to certain identified market factors, if regularly considered in formal testing in the fund's risk management, broken down by the long and short components of the qualifying fund's portfolio. *See* Item 42 of Form PF; *see also* Form PF Adopting Release, *supra* footnote 80, at nn. 270-272 and accompanying text.

[182] Unlike with Form PF, which does not require position-level reporting, with Form N-PORT the staff will be able to calculate alternative risk measures using the detailed position-level information provided in reports on Form N-PORT.

[183] *See* Simpson Thacher Comment Letter (derivatives reporting should focus on portfolio-level risk metrics, such as "value-at-risk" models).

failing to return the borrowed security or returning it late), the borrower 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.[184] Funds generally demand 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.

A fund's income from these activities may come from fees paid by the borrowers to the fund and/or from the reinvestment of collateral.[185] 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 being paid a share of the fund's securities lending revenue after the borrower has been paid any rebate owed to it.[186]

Securities lending may implicate 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.[187] Funds that rely on these letters and orders are

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[184] *See* SIFMA, Master Securities Loan Agreement, §§4 (Collateral), 9 (Mark to Market) (2000) ("Master Securities Loan Agreement"), *available at* http://www.sifma.org/Services/Standard-Forms-and-Documentation/MRA,-GMRA,-MSLA-and-MSFTAs/MSLA_Master-Securities-Loan-Agreement-(2000-Version). *See also* Division of Investment Management, SEC, *Securities Lending by U.S. Open-End and Closed-End Investment Companies* (2014) ("Securities Lending Summary"), *available at* http://www.sec.gov/divisions/investment/securities-lending-open-closed-end-investment-companies.htm.

[185] If a security is not in high demand, a lender typically pays the borrower a cash collateral fee, commonly called a "rebate." 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* Master Securities Loan Agreement, *supra* footnote 184, at §5 (Fees for Loan).

[186] *See* Securities Lending Summary, *supra* footnote 184.

[187] 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

subject to conditions on a number of aspects of their securities lending activities, 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.[188] Funds generally also disclose additional information regarding their securities lending programs in their registration statements.[189] In addition, consistent with current industry practices, many funds identify particular securities that are on loan in their schedules of portfolio investments prepared pursuant to Regulation S-X. These disclosures do not address other pertinent considerations, such as the extent to which a fund lends its portfolio securities, the borrower to which the fund is exposed, the fees and revenues associated with those activities, and the significance of securities lending revenue to the investment performance of the fund.

As proposed, 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 requiring funds to report certain borrower information and position-level information

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section 18 of the Investment Company Act, which governs the extent to which a fund may incur indebtedness. *See id.*

188 Item 70.N of Form N-SAR.

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

monthly on Form N-PORT.[190] Also, as to other securities lending 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), funds will report such information annually on Form N-CEN, as proposed and as discussed below in section II.D. In addition, as discussed below in section II.C.6, we have made a modification from the proposal to require 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 fund's Statement of Additional Information (or, for closed-end funds, reports on Form N-CSR) or in Form N-CEN, instead of a fund's financial statements as we had originally proposed.[191]

The new reporting requirements we are adopting are intended, in part, to increase the transparency of information available related to the lending of securities by funds as a subset of the universe of market participants engaged in securities lending activities.[192] Commenters were

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[190] *See infra* text following footnote 195 (discussing the reporting of counterparty information); section 0 (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 ("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. to FSOC Notice (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).

[191] *See infra* footnotes 724-725 and accompanying text (discussing new required disclosures in funds' Statement of Additional Information (or, for closed-end funds, funds' reports on Form N-CSR) that will allow investors to better understand the income generated from, as well as the expenses associated with, securities lending activities) and 1224-1225 and accompanying text (discussing new required disclosures of monthly average value of portfolio securities on loan in Form N-CEN).

[192] *See, e.g.*, section 984(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376, 1933 (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).

generally supportive of increased reporting about securities lending activities, although they suggested modifications to certain aspects of the proposal and expressed concerns with some of the specific proposed reporting.[193] These comments, and the modifications we are making in response to comments, are discussed in more detail below.

Borrower Information.[194] 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. In the U.S., cash collateral is more typical than non-cash collateral and loans are often over-collateralized. The collateral requirements thereby mitigate the extent of a fund's counterparty risk. This risk is further mitigated for the fund if the fund's securities lending agent indemnifies the fund against default by the borrower.

As we explained in the Proposing Release, while we believe there is value to having information on borrowers of fund securities to monitor risk, as well as information with which to evaluate compliance with conditions set forth in staff no-action letters and exemptive orders,[195] we proposed to require that funds report the full name and LEI (if any) of each borrower, as well as the aggregate value of all securities on loan to the particular borrower, rather than at the loan level.[196] We believe that reporting of borrower information at an aggregate portfolio level will

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[193] *See, e.g., infra* footnotes 199–201 and accompanying and following text (recommending that the collection of securities lending information should be limited to the top 5 or 10 securities lending borrowers with the greatest exposure) and footnotes 205–208 and accompanying and following text (suggestions regarding how to report non-cash collateral posted by securities lending borrowers).

[194] In the Proposing Release, we referred to "securities lending counterparties," but have made a clarifying change to "securities lending borrowers" in the form. As discussed above, when funds are engaged in securities lending transactions, they are securities lenders because they lend their portfolio securities to other financial institutions, such as broker-dealers, who are securities borrowers. The change in terminology is not intended to alter the substance of reporting from what we proposed.

[195] *See generally* Securities Lending Summary, *supra* footnote 184.

[196] 0 of proposed Form N-PORT.

provide the Commission, investors, and other potential users 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.

Commenters generally supported our proposal to increase reporting relating to securities lending borrowers, although one commenter questioned the usefulness of borrower information given that securities lending agreements are generally indemnified by securities lending agents.[197] Most commenters also specifically supported our approach of assessing the counterparty risk of securities lending transactions on an aggregate basis for each borrower, as opposed to a loan-by-loan or security-by-security basis.[198]

However, many commenters recommended limiting the collection of securities lending information to the top 5 or 10 securities lending borrowers presenting the greatest exposure.[199] These commenters argued that the top 5 securities lending borrowers generally represent the majority of a fund's securities lending exposure and that further disclosure would impose unnecessary costs on funds and shareholders to the extent it would be capturing borrowers to

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197 *See, e.g.,* Comment Letter of Independent Directors of the BlackRock Equity-Liquidity Funds (Oct. 2, 2015) ("Blackrock Directors Comment Letter") (supporting this aspect of our proposal); BlackRock Comment Letter (same); Fidelity Comment Letter (same); Comment Letter of the Risk Management Association (Aug. 11, 2015) ("RMA Comment Letter") (same); SIFMA Comment Letter I (same); Comment Letter of CFA Institute (Aug. 10, 2015) ("CFA Comment Letter") (same). *But see* MFS Comment Letter (arguing that disclosure of borrower information may not be relevant in understanding a fund's counterparty exposure, because if the fund has been indemnified then the counterparty exposure rests with the lending agent).

198 *See, e.g.,* BlackRock Comment Letter; Morningstar Comment Letter.

199 *See, e.g.,* ICI Comment Letter (limit to the top 5 securities lending borrowers); RMA Comment Letter (top 5 or 10 borrowers); Fidelity Comment Letter (top 5 borrowers; broader securities lending disclosures would not provide a meaningful indicator of risk in securities lending because security loans are fully collateralized and also funds may be indemnified by lending agents); State Street Comment Letter (top 5 or ten borrowers). *But see* Morningstar Comment Letter (applauding the Commission's proposal to require counterparty information for all securities lending borrowers).

which the fund does not have material exposure.[200] Likewise, several commenters suggested that borrower information for securities lending transactions should only be reported by funds whose securities lending exposure exceeded a certain minimum threshold.[201]

We continue to believe that funds that engage in securities lending should be required to report information for all of its securities lending borrowers. In response to commenters' observations that many funds are indemnified for their securities lending transactions, we note that not all funds are so indemnified. Separately, we believe that information on borrowers is useful even if there is an indemnification by the agent. For example, such information is helpful in generally monitoring the degree to which funds are involved in securities lending transactions and the identities of borrowers engaged in such transactions. Allowing funds to exclude certain borrower information would limit the applicability and completeness of the information reported on Form N-PORT regarding counterparty risk, both to an individual fund and to the fund industry. We are not persuaded by commenters' arguments that reporting of all borrowers would be unduly burdensome or costly, as we believe funds would need to collect this information both to understand its own counterparty risk and for its own oversight of securities lending. For these reasons, we are requiring funds to report aggregate borrower exposure for all securities lending borrowers, as proposed.

Several commenters also suggested that borrower information for securities lending information should be nonpublic. In particular, these commenters expressed concerns that

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[200] *See, e.g.,* Invesco Comment Letter (the top 5 securities lending borrowers generally represent 68% of a fund's securities lending exposure); ICI Comment Letter (additional disclosures beyond the top 5 borrowers would impose unnecessary costs on funds and shareholders).

[201] *See* Wells Fargo Comment Letter (portfolio level reporting of aggregate securities lending activity should only be required for funds with a minimum threshold of 10% of assets on loan); Oppenheimer Comment Letter (funds should report only the top 5 borrowers and not disclose anything if outstanding securities loans do not exceed 1% of net assets).

securities lending counterparties (*i.e.*, borrowers) may wish to avoid having details of their exposures being made public, including to competitors.[202] We are not persuaded by these arguments. First, we note that the new reporting requirements we are adopting today are intended, in part, to increase the transparency of information available related to the lending and borrowing of securities.[203] Making borrower information for the securities lending information reported on Form N-PORT nonpublic would defeat this objective.

Second, based on our experience with securities lending, we are not persuaded by commenters claiming that a fund's activities in securities lending would be harmed because certain securities borrowers do not want to be identified. We note that we are not requiring identification of securities borrowers by loan, but rather on an aggregated basis. We also note that certain funds currently publicly identify securities lending borrowers twice per year in the notes to their annual and semi-annual financial statements, as permitted by GAAP.[204] We are unaware of any evidence that these disclosures have had any effects on borrowers' decisions to borrow from registered investment companies in the manner those commenters suggest, and thus we continue to believe that requiring funds to make such information publicly available is appropriate because these disclosures will improve transparency to investors and other users.

As discussed in greater detail below, we also received various suggestions regarding how to report non-cash collateral posted by securities lending borrowers.[205] One commenter pointed out that funds typically do not account for non-cash collateral as a fund asset because funds generally do not "control" the non-cash collateral and thus do not bear any investment risk for

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[202] *See* BlackRock Comment Letter; SIFMA Comment Letter I; RMA Comment Letter.

[203] *See supra* footnote 192 and accompanying text.

[204] *See, e.g.*, SIFMA Comment Letter I.

[205] *See infra* footnote 413 and accompanying and following text.

it.[206] For this reason, the commenter asserted that it would be inconsistent with accounting and reporting standards for funds to report non-cash collateral received for loaned securities as portfolio investments on Form N-PORT, as we proposed.[207] We agree with the commenter and are modifying Form N-PORT from the proposal to add a new Item requiring funds to report the aggregate principal amount and aggregate value of each type of non-cash collateral received for loaned securities that is not treated as a fund asset.[208]

Several commenters also requested that Form N-PORT collect additional information regarding securities lending activities. One commenter recommended that funds report average monthly aggregate dollar amounts on loan and fee split information, as well as a brief summary of the fund's securities lending program, including risk and strategy.[209] Another commenter suggested that the aggregate value of securities lent should be accompanied by the aggregate value of collateral pledged.[210] One commenter requested that funds report the average daily value of securities lending collateral over the reporting period, rather than a snapshot as of the last day of the reporting period, and asserted that securities lending collateral can be used as a proxy for the percentage of the portfolio that is on loan, which is the true quantity of interest.[211]

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206 *See* ICI Comment Letter.

207 *See* 0 of proposed Form N-PORT.

208 *See* 0 of Form N-PORT. Funds will report the category of instrument 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; U.S. Treasuries (including strips); other instrument). If "other instrument," funds will also include a brief description, including, if applicable, whether it is an irrevocable letter of credit.

209 *See* Comment Letter of John C. Adams (July 8, 2015) ("John Adams Comment Letter").

210 *See* Morningstar Comment Letter.

211 *See* Comment Letter of Richard B. Evans (Oct. 20, 2015).

We are not adopting such additional reporting requirements on Form N-PORT. As discussed further below, the amendments to the Statement of Additional Information (and, for closed-end funds, Form N-CSR) that we are adopting today will require funds to make certain disclosures in connection with their securities lending activities and cash collateral management, and Form N-CEN also requires information about a fund's securities lending program, including the average monthly value of securities on loan. Although the additional information requested by commenters may be useful to certain investors or other users, we are sensitive to the burdens on funds of additional reporting requirements. Some of the information requested by commenters, such as a brief summary of the fund's securities lending program, including risk and strategy, is already disclosed in fund registration statements.[212] Certain other information requested by commenters, such as the aggregate value of securities lent and the aggregate value of collateral pledged, can be calculated by adding up the structured information reported for each individual securities lending transaction.[213] Furthermore, other information requested by commenters, such as the percentage of the portfolio securities on loan over the reporting period, can be derived from information that will be reported in a structured format as part of this rulemaking.[214] Although we understand that requiring funds to report additional information may be useful to certain users of such information, Form N-PORT is primarily designed to meet the data needs of the Commission and its staff. As such, the securities lending information we are requiring to be reported on Form N-PORT is designed to balance what we anticipate would

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[212] *See supra* footnote 189 and accompanying text.

[213] *See* Item C.12.a (value of the investment representing cash collateral), Item C.12.b (value of the securities representing non-cash collateral), and Item C.12.c (value of the securities on loan) of Form N-PORT.

[214] *See* Item B.1 of Form N-PORT (net assets); Item C.6.f of Form N-CEN (monthly average value of securities on loan).

be useful for our regulatory oversight purposes, namely obtaining more information specifically regarding counterparties, amounts on loan, and how collateral is reinvested, against the expected burdens of reporting such information. Accordingly, we decline to modify Form N-PORT to require the additional securities lending disclosures requested by commenters.

We also received several comments requesting that we revise Form N-PORT to phase in reporting of securities lending borrowers' LEIs. Commenters urged that this requirement be delayed until LEIs have been fully integrated into the global financial system and lending agents and funds have implemented the necessary systems enhancements to facilitate LEI reporting.[215] Commenters also expressed concerns that reporting LEI information for securities lending counterparties (*i.e.*, borrowers) may cause borrowers to become less likely to borrow from registered funds and more likely to borrow from lenders who are not required to make similar disclosures, in order to avoid having details of the borrowers' exposures being made public.[216]

For the same reasons discussed above regarding commenters' suggestions not to require disclosure of securities borrowers, we are not persuaded by such arguments. While the Commission is the primary user of the form, the new reporting requirements we are adopting today are intended, in part, to increase the transparency of information available related to the lending and borrowing of securities.[217] In particular, the uniform public reporting of borrowers' LEIs will facilitate the identification of such borrowers, which is part of the purpose of such reporting. As discussed above, providing exemptions or deferring implementation of this requirement would hinder the ability of Commission staff as well as investors and other potential

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[215] *See* State Street Comment Letter; BlackRock Comment Letter; RMA Comment Letter.

[216] *See* State Street Comment Letter; RMA Comment Letter.

[217] *See supra* footnote 192 and accompanying text.

users of this information to use the data on Form N-PORT as discussed above.[218] Furthermore, as indicated above, Form N-PORT instructs funds to report LEIs "if any" for borrowers, and thus already acknowledges and makes accommodations for the fact that LEI identifiers may not be available in some contexts as LEIs are continuing to be integrated into the global financial system.

e. Return Information

As proposed, we are requiring funds to provide monthly total returns for each of the preceding three months.[219] If the fund is a multiple class fund, it will report returns for each class.[220] Funds with multiple classes will also report their class identification numbers.[221] Funds will 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.[222]

We are requiring this information on Form N-PORT because we believe it will 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, and this type of analysis can be done much more efficiently and timely when the information is reported in a structured format. Additionally, performance that appears to be inconsistent with a fund's investment strategy or

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218 *See supra* footnote 68 and accompanying and following text.

219 *See* 0 of Form N-PORT.

220 *See id.*

221 *See* 0 of Form N-PORT.

222 *See* Item 26(b)(1) of Form N-1A; Instruction 13 to Item 4 of Form N-2; Item 26(b)(i) of Form N-3. Return information reported on Form N-PORT will reflect swing pricing for funds that elect to swing price pursuant to the contemporaneous release we are adopting today regarding swing pricing for open-end funds. *See* Swing Pricing Adopting Release, *supra* footnote 9., at section II.A.3.g.

other benchmarks can form a basis for further inquiry and monitoring.[223] Although mutual funds currently report certain return information in a structured format periodically as part of their risk/return summaries, we believe that having return information reported on a monthly basis by all registered funds will allow the Commission staff to more easily and effectively monitor the fund industry as a whole, as described above.[224]

Because only quarter-end reports on Form N-PORT will be made public, we are requiring, as proposed, that funds provide return information for each of the preceding three months.[225] This rolling three month requirement will provide investors and other potential users with monthly return information, so that they will 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.

Commenters had mixed reactions regarding the reporting of monthly total returns. Several commenters expressed concern that reporting three months of returns could cause investors to unduly focus on short-term results and recommended that returns for longer periods

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[223] 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.*, SEC, SEC Charges Hedge Fund Adviser and Two Executives with Fraud in Continuing Probe of Suspicious Fund Performance, Press Release: 2012-209 (Oct. 17, 2012), *available at* http://www.sec.gov/News/PressRelease/Detail/PressRelease/1365171485332.

[224] *See generally* Interactive Data for Mutual Fund Risk/Return Summary, Investment Company Act Release No. 28617 (Feb. 11, 2009) [74 FR 7748 (Feb. 19, 2009)] (requiring funds to submit to the Commission a structured data file for any registration statement or post-effective amendment on Form N-1A that includes or amends information in Form N-1A's risk/return summary); SEC, Interactive Data and Mutual Fund Risk/Return Summaries, *available at* https://www.sec.gov/spotlight/xbrl/mutual-funds.shtml.

[225] *See* 0 of Form N-PORT. Although generally only information reported on Form N-PORT for the third month of each fund's fiscal quarter will be publicly available, the concerns associated with more frequent public disclosure are related to the disclosure of portfolio holdings information and will not apply to the disclosure of fund return information. *See generally* footnote 1305 and accompanying and following text (discussing the risks of predatory trading practices such as front-running and the ability of non- investors to reverse engineer and copycat fund's investment strategies).

of time be reported instead.[226] One commenter recommended that funds should report only a single month of returns in order to lower compliance costs and because investors are likely to use other sources (such as fund or third-party websites) to find return information rather than Form N-PORT.[227] Another commenter agreed with our proposed approach of requiring funds to report total returns as opposed to gross returns, noted that monthly fund performance data is already generally publicly available, and concluded that the quarterly public release of monthly performance data reported on Form N-PORT would result in the release of information that had already been made available to the public.[228]

We are adopting this requirement as proposed. As acknowledged by commenters, many funds and market data providers already generally disclose monthly performance data to investors, and daily performance data is often available as well.[229] The greater granularity provided by monthly data will enhance the ability of Commission staff to use return information to reveal outliers and detect performance that appears to be inconsistent with a fund's investment strategy or other benchmarks, as discussed above. More generally, frequent disclosure of

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[226] *See* CRMC Comment Letter (monthly return information could cause investors to focus on short-term results and therefore should not be publicly reported or, in the alternative, should be reported together with fund level long-term results); Wells Fargo Comment Letter (funds should provide returns for a rolling 12-month period as of the end of each month); Dreyfus Comment Letter (short-term performance can mislead investors); SIFMA Comment Letter I (monthly return information should not be made public or, in the alternative, should be disclosed annually on Form N-CEN).

[227] *See* Comment Letter of Confluence Technologies, Inc. (Aug. 11, 2015) ("Confluence Comment Letter").

[228] *See* Morningstar Comment Letter.

[229] *See, e.g.*, Morningstar Comment Letter (Morningstar's monthly performance data, as well as most of the industry's data, is generally made available on investor-facing websites by the third business day after month end. Daily performance data is also provided for 99.6% of open-end investment companies by 9 pm EST.); SIFMA Comment Letter I (certain funds make monthly returns available on their websites).

performance data over shorter time periods can better capture variations in performance that would not be apparent with returns reported over longer time periods.

Accordingly, we are not persuaded by commenters' recommendations to require funds to report return information on Form N-PORT over longer time horizons, as opposed to on a monthly basis. We are similarly not persuaded by arguments that reporting fund performance data for three months will "[provide no] direct or indirect value to [fund] investors" as opposed to reporting one month of fund performance information.[230] As discussed above, although Form N-PORT is primarily designed to assist the Commission and its staff, we believe that investors and other potential users may benefit from the information reported on Form N-PORT as well, either by analyzing Form N-PORT directly or through analyses prepared by third-party service providers. Because Form N-PORT will be available on a quarterly basis but will provide month-end return information, we remain concerned that investors might potentially confuse one month's returns as representing the fund's returns for the full quarter. For each of these reasons, we are requiring funds to report monthly return information for each of the preceding three months, as proposed.

We are also requiring, substantially as proposed, 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 certain categories. We proposed that this information would be reported by asset category (*i.e.*, commodity contracts, credit contracts, equity contracts, etc.). We are modifying the proposal to require funds to report this information by both asset category and also by type of derivative instrument (*i.e.*, forward, future, option,

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[230] *See* Confluence Comment Letter.

swap, etc.).[231] This information will help the Commission staff, investors, and other 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, and as proposed, we are also requiring 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.[232]

Comments on this aspect of the proposal were mixed. Some commenters opposed the reporting requirement, stating that it would not provide a valuable reference point from which to assess whether the derivatives included in a fund's portfolio have contributed to returns, especially when derivatives are used for hedging purposes.[233] One commenter expressed general support for the derivatives reporting requirements in N-PORT, including this proposed requirement, stating that this information would, among other things, allow the Commission to better assess trends, given the potential risks associated with certain uses of derivatives.[234]

Several commenters, in response to a request for comment, recommended that the Commission require funds to report the monthly net realized gain (or loss) and net change in unrealized appreciation (or depreciation) attributable to derivatives by type of derivative instrument (*i.e.*, forward, future, option, swap, etc.), rather than by asset category (*i.e.*, commodity contracts, credit contracts, equity contracts, etc.). This is because funds typically report derivatives in their financial statements by type of derivative instrument rather than asset

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231 *See* 0 of Form N-PORT.

232 *See* 0 of Form N-PORT.

233 *See* Wells Fargo Comment Letter; Dreyfus Comment Letter.

234 *See* CFA Comment Letter (additionally supporting disclosure of derivatives reporting on N-PORT to investors).

category. As a result, according to commenters, systems are currently aligned to capture and report this information by instrument type, whereas reporting information by asset category would require large changes to the existing accounting systems, which these commenters believed would involve costs that would not be justified by the resulting benefits.[235] Finally, some commenters believed that gains (or losses) and appreciation (or depreciation) attributable to derivatives should not be made public because such information would not be meaningful to investors and could potentially convey proprietary information about the fund's trading strategies that could be used for predatory trading or to reverse engineer the fund's investment strategy.[236]

We disagree with commenters questioning the utility of reporting gains (or losses) and appreciation (or depreciation) attributable to derivatives. We continue to believe that this information will help Commission staff, investors, and other 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. We recognize that providing this information by asset category is not how funds currently maintain this data in their systems and therefore will involve more systems changes and costs relative to providing this information by type of derivative instrument alone; however, we disagree that such information does not have a benefit that justifies this burden. Providing this information by asset category will be helpful in understanding the relationship between derivatives – and, as discussed further below, the types of derivative instruments – that provide exposure to a particular asset category and direct investments in the same asset category. For example, information attributable to equity derivatives contracts could be compared to returns attributable to direct investments in equities. Further, reporting returns

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[235] *See* SIFMA Comment Letter I; ICI Comment Letter; MFA Comment Letter.

[236] *See* SIFMA Comment Letter I; MFA Comment Letter.

by derivative instrument alone would not provide any information about the market risk factors that had caused the gain or loss.

Although we recognize that there will be some initial burden in modifying systems to provide information by asset category, we note that funds are currently already required to compile this information by asset category twice a year, pursuant to FASB Topic ASC 815.[237] While we understand from the comments that many funds currently compile this manually, we believe, based on staff experience, that such processes could be automated over time to facilitate the more frequent reporting. In particular, we note that Form N-PORT, as proposed and adopted, will separately require funds to categorize each derivative investment by asset category, which should reduce the incremental burden of providing return information by asset category.[238]

Additionally, after consideration of the comments, we are modifying this item from the proposal to require funds to report this information by type of derivative instrument within each asset category. We believe that providing both elements – asset category and derivative instrument type – will make this information more informative than by reporting by either asset category or instrument type in isolation. For example, consider a fund that uses derivatives in two asset categories (*e.g.*, equities and commodities) and two types of derivative instruments (*e.g.*, futures and options). If the asset category or instrument type were reported alone, users of the information would be unable to discern if the fund is deriving its returns by using equity options and commodity futures or equity futures and commodity options – or in what proportion. Reporting both pieces of information together allows the Commission, investors, and other users

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[237] *See* ASC 815 (Derivatives and Hedging).

[238] *See* Item C.4.a of Form N-PORT (requiring reporting of asset category of each investment among enumerated categories, including derivative-commodity, derivative-credit, derivative-equity, derivative-foreign exchange, derivative-interest rate, derivatives-other).

to determine from which category-type combination the fund is drawing (or hedging) its exposure. Further, knowing the instrument type in combination with asset category can be important for understanding the risks associated with obtaining exposure to a particular asset category because different derivative instruments can have different risks associated with them, such as different counterparty risk, or a linear risk profile (*e.g.* futures) versus a non-linear risk profile (*e.g.*, options). Additionally, having such information by instrument and asset category will be useful in understanding situations ranging from a market disruption for a particular type of derivative instrument (*e.g.*, a market disruption affecting a futures market) to a price shock impacting a particular asset category (*e.g.*, commodities). Consequently, we believe that requiring such information by both derivative instrument type and asset category will provide more complete information relative to providing either type in isolation to Commission staff, investors, and other potential users seeking to better understand how a fund is using derivatives in accomplishing its investment strategy and the impact of derivatives on the fund's returns.

Moreover, based on staff review of fund financial statements, we have observed that in compliance with the requirements of FASB Topic ASC 815, upon which this reporting requirement was based, funds generally show gains (losses) and appreciation (depreciation) in tabular format by both asset category and type of derivative instrument. Because, as noted by commenters, many funds already have systems in place to classify derivatives by instrument type, we believe that requiring such information to be reported on Form N-PORT along with asset category will not add a significant incremental burden relative to providing, as proposed, such information by asset category alone.[239]

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[239] *See* SIFMA Comment Letter I; ICI Comment Letter.

Regarding comments concerning public disclosure of the information, we disagree with the commenter that argued such disclosures could reveal information that could be used for reverse engineering or predatory trading.[240] We are not aware of this information being used for such purposes, nor did the commenter explain how the disclosure of such information could reveal information about the fund's trading strategies that would allow traders to "front-run" or "copycat" the fund. Separately, we note that the information will be delayed in terms of public disclosure and that the return information will be aggregated, which should mitigate the possibility that such information could be used by predatory traders to the detriment of the fund.

Likewise, we disagree with the commenter that asserted such information would not be meaningful to investors.[241] The Commission believes, and one commenter agreed, that this information will be useful for identifying funds in which a significant amount of gains and losses came from exposures to derivative contracts, and will allow Commission staff, investors, and other potential users to better understand the relationship between the type of derivative instrument and asset category in terms of the impact on the fund's returns. Furthermore, we are not persuaded by commenters' arguments that such information would be misleading to investors if made publicly available. As discussed above, funds will also be reporting similar information attributable to investments other than derivatives, which we believe could help investors compare returns attributable to derivatives with returns attributable to a fund's other investments. Furthermore, although gains (or losses) and appreciation (or depreciation) from derivatives may have different implications depending on whether derivatives are being used for investment purposes or as a hedge for other positions in the portfolio, disclosure of such

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[240] *See* SIFMA Comment Letter I.

[241] *Id*.

information should help improve the ability of investors to understand and assess the use of derivatives in funds' investment strategies.

f. Flow Information

As proposed, Form N-PORT will 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).[242] This information is similar to what is currently reported on Form N-SAR, and is generally to be reported subject to the same instructions that currently govern reporting of flow information on that form.[243] We are requiring this information on Form N-PORT because we believe that this information will 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

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[242] *See* 0 of Form N-PORT.

[243] Similar to Form N-SAR, Form N-PORT will 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 will include shares sold by the fund to a registered UIT. Funds will 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 will include as shares redeemed any transaction in which the fund liquidated all or part of its assets. Exchanges will 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. Form N-PORT will also include a new clarifying instruction, providing that if shares of the fund are held in omnibus accounts, funds will use net sales or redemptions/repurchases from such omnibus accounts for purposes of calculating the fund's sales, redemptions, and repurchases. *Cf.* 0 of Form N-PORT 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).

other information that will be reported on Form N-PORT regarding liquidity of fund positions pursuant to changes to Form N-PORT set forth in the Liquidity Adopting Release, which we are adopting today, flow information could also help us identify funds that might be at risk of experiencing liquidity stress due to increased redemptions.[244]

Commenters generally supported our proposed reporting requirements for monthly flow information.[245] However, many commenters noted that funds are generally unable to look through omnibus accounts to the underlying investors, and thus requested confirmation that flow information be reported on a net basis for shares of the fund held in omnibus accounts.[246] We agree with these commenters, and in response to these comments, Form N-PORT now includes a clarifying instruction to this effect.[247]

One commenter asked the Commission to mandate that transfer agents, distributors, or some other entity (*e.g.*, a central data repository) track omnibus flow information by type of underlying investor (*i.e.*, 401(k) plans/individual retirement accounts, pension funds, insurance companies, other institutional investors, and retail investors).[248] The commenter suggested that this information be provided to fund managers, who would then report this information on Form N-PORT. The commenter concluded that this information would help funds and others to create

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244 *See* Liquidity Adopting Release, *supra* footnote 9.

245 *See* ICI Comment Letter; SIFMA Comment Letter I; Wells Fargo Comment Letter; BlackRock Comment Letter.

246 *See* State Street Comment Letter; MFS Comment Letter; Wells Fargo Comment Letter; SIFMA Comment Letter I; ICI Comment Letter; Morningstar Comment Letter. *But see* BlackRock Comment Letter (recommending that the Commission mandate that transfer agents, distributors, or some other entity aggregate information by investor types redeeming from and subscribing to funds so that funds could look through omnibus accounts and report more detailed flow information).

247 *See supra* footnote 243.

248 *See* BlackRock Comment Letter.

predictive models to better understand potential future redemptions, which in turn would help funds with liquidity risk management.

We acknowledge the merits of helping funds better manage potential redemption risks, and further note that better transparency into intermediary omnibus accounts by each type of underlying investor would help the Commission better understand subscription and redemption activity and how it varies across distribution platforms and market environments. However, the commenter's suggestion is beyond the scope of this rulemaking, although we note that the Commission is currently seeking a range of input with respect to omnibus intermediary account relationships, including through the recently issued advance notice of proposed rulemaking and concept release with respect to transfer agent regulations, which seeks comment in various areas including the processing of book entry securities, broker-dealer recordkeeping for beneficial owners, and the role of transfer agents to mutual funds.[249]

Another commenter recommended that monthly flow information be reported for only the last month of the reporting period, rather than for the three prior months, on the grounds that reporting this information for the three prior months would have "no direct value to investors."[250] We are not persuaded by this suggestion. As discussed above, although Form N-PORT is primarily designed to assist the Commission and its staff, we believe that investors and other potential users may benefit from the information reported on Form N-PORT as well, either by analyzing Form N-PORT directly or through analyses prepared by third-party service providers. Unlike other information reported on Form N-PORT, which generally represents a snapshot "as

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[249] *See* Transfer Agent Regulations Concept Release, Securities Exchange Act Release No. 76743 (Dec. 22, 2015) [80 FR 81948 (Dec. 31, 2015)].

[250] *See* Confluence Comment Letter.

of" a certain date, flows are calculated over a period of time. Because information reported on Form N-PORT will be publicly available on a quarterly basis but will provide monthly flow information, we are concerned that investors might potentially believe that one month's flows represent the fund's flows for the full quarter. For that reason, we are requiring funds to report monthly flow information for each of the preceding three months, as proposed.

g. Schedule of Portfolio Investments

Part C of Form N-PORT will require, as proposed, 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. As proposed, funds will respond to certain questions that will apply to all investments (*i.e.*, the investment's identification, amount, payoff profile, asset and issuer type, country of investment or issuer, fair value level, and whether the investment was a restricted security). As proposed, funds will also respond, as applicable, to additional questions related to specific types of investments (*i.e.*, debt securities, repurchase and reverse repurchase agreements, derivatives, and securities lending).

Also, as proposed, funds will have the option of identifying any investments that are "miscellaneous securities."[251] Unless otherwise indicated, funds will not report information related to those investments in Part C, but will instead report such information in Part D.[252]

i. Information for All Investments

Form N-PORT will require, as proposed, funds to report certain basic information about each investment held by the fund and its consolidated subsidiaries. In particular, funds will report the name of the issuer and title of issue or description of the investment, as they are

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[251] *See* Part D of Form N-PORT. *See also supra* footnote 99 and accompanying text.

[252] *See infra* footnote 419 and accompanying and following text.

currently required to do on their reported schedules of investments.[253] 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. 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.

To address this issue, and as proposed, we are requiring that funds report additional information about the issuer and the security. Funds will report certain securities identifiers, if available.[254] For example, for security-based swaps, funds may report the product ID if a product ID for that contract is used by one or more security-based swap data repositories.[255] Identifiers for other types of derivatives may also be used, if available.[256] If a unique identifier is reported, funds will also indicate the type of identifier used.[257] Such an identifier might be assigned by a security-based swap data repository or be internally generated by the fund or provided by a third party, but should be consistently used across the fund's filings for reporting

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253 *See* 0 of Form N-PORT.

254 *See* 0, 0, and 0 of Form N-PORT (requiring reporting of identifiers such as LEI of the issuer, CUSIP, ISIN, ticker or other unique identifier).

255 *See* 17 CFR 242.900(aa) and (bb) (defining "product" and "product ID," respectively). *See also* Regulation SBSR Adopting Release, *supra* footnote 61 (discussing use of product IDs under Regulation SBSR).

256 *See, e.g.*, CFTC, Q&A — Swap Data Recordkeeping and Reporting Requirements, *available at* http://www.cftc.gov/ucm/groups/public/@newsroom/documents/file/sdrr_qa.pdf (discussing product identifiers for swaps).

257 *See* 0 of Form N-PORT.

that investment so that the Commission, investors, and other potential users of the information can track the investment from report to report.

We received comments regarding the use of unique identifiers generally, and LEI in particular. As discussed above, many commenters expressed support for the use of LEI for identification of funds, registrants, and counterparties.[258] However, one commenter asserted that a portfolio-based approach, including data on counterparties to whom funds have greatest exposures, would enable adequate monitoring of potential threats better than obtaining counterparty LEI and specific information for each bilateral transaction.[259] Other commenters expressed concerns regarding the ability of funds to verify the accuracy of LEIs provided by third-parties.[260] Another commenter suggested that each security held by a fund should be identified by ticker and CUSIP, or ISIN and SEDOL for foreign securities, together with the primary exchange where the security is traded at the date of the filing.[261] Another commenter urged the Commission not to mandate the use of certain unique identifiers for public and nonpublic funds, such as the Financial Instrumental Global Identifier ("FIGI").[262]

As discussed above, we are adopting a portfolio-based approach in the securities lending context, including data on counterparties to whom funds have greatest exposures. However, we

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[258] *See* footnote 64 and accompanying text.

[259] *See* CFA Comment Letter.

[260] *See* Oppenheimer Comment Letter; MFS Comment Letter; ICI Comment Letter.

[261] *See* Russ Wermers Comment Letter.

[262] *See* State Street Comment Letter (asserting that there are few third-party providers who currently use such unique identifiers and concluding that requiring the usage of such unique identifiers would give those providers an unfair competitive advantage relative to the rest of the industry). 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 (Sept. 2014), *available at* http://www.omg.org/spec/FIGI/1.0/Beta1/.

believe that the uniform reporting of LEIs by fund series and registrants, as well as securities issuers and fund counterparties, will further enhance our monitoring and analytical capabilities by providing a consistent means of identification that will facilitate the linkage of data reported on Form N-PORT with data from other filings and sources that is or will be reported elsewhere. We acknowledge that LEIs have not yet been fully integrated into the global financial system, and accordingly the form contains a qualifier that an LEI be reported, "if any." We believe, however, that LEIs will become more widely used by regulators and the financial industry and note that our rulemaking will not require funds to report LEIs, if any, until 18 months following the effective date.

However, we understand that funds will in some instances be relying upon service providers and other third-parties who will be providing funds with LEI information to be reported to the Commission and publicly disclosed to investors and other possible users, and we understand that funds may find it difficult to verify such information other than to confirm that it has been generated and reported consistently with the methodologies of the fund's service providers. As discussed above, the fund may generally use its own methodology or the methodology of its service provider, so long as the methodology is consistently applied and is consistent with the way the fund reports internally and to current and prospective investors.[263] We do not believe, as some commenters suggested, that it is necessary to require specific alternative unique identifiers for securities or entities at this time, other than those identified in

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[263] *See* General Instruction 0 of Form N-PORT ("Funds may respond to this Form using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors. However, the methodologies and conventions must be consistently applied and the Fund's responses must be consistent with any instructions or other guidance relating to this Form.").

Form N-PORT, because we believe that allowing funds to select another identifier in the absence of an ISIN, CUSIP, or ticker gives funds appropriate flexibility in identifying such investments.

We are also requiring, as proposed, funds to report the amount of each investment as of the end of the reporting period, as is currently required under Regulation S-X.[264] Funds will 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 investment when compared to the net assets of the fund.[265] Funds will 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.[266] We received no comments on this aspect of our proposal.

Also as proposed, we are requiring funds to report the payoff profile of the investment, indicating whether the investment is held long, short, or N/A, which will serve the same purpose as the current requirement in Regulation S-X to disclose investments sold short.[267] Funds will respond N/A for derivatives and will respond to relevant questions that indicate the payoff profile of each derivative in the derivatives portion of the form. These disclosures will identify short positions in investments held by funds. We received no comments on these disclosure requirements.

As proposed, funds will 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,

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[264] *See* 0 of Form N-PORT. *See* rule 12-12 of Regulation S-X.

[265] *See* 0–0 of Form N-PORT. For derivatives, as appropriate, funds will provide the number of contracts.

[266] *See* 0 and 0 of Form N-PORT.

[267] *See* 0 of Form N-PORT. *See* rule 12-12A of Regulation S-X [17 CFR 210.12-12A].

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).[268] We are also adopting a modification from the proposal to add a "derivatives-other" category to encompass derivatives that do not fall into the other categories of derivatives enumerated in this Item, so as to allow Commission staff, investors, and other users of the information reported on Form N-PORT to more easily aggregate the fund's derivative investments. 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 categories of investments required to be reported by private funds on Form PF.[269] These disclosures will 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.

One commenter recommended the use of a well-defined taxonomy for asset and issuer type, such as ISO 10962, or some truncation of the six-character ISO Classification of Financial Instruments code.[270] Although we acknowledge there could be benefits for data aggregation and analysis to using an existing standardized taxonomy for users of the form, Form N-PORT is

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[268] *See* 0 and 0 of Form N-PORT.

[269] *See, e.g.*, Item 26 of Form PF (requiring filers to report exposures by asset type); Item 1 of Form N-Q (requiring filers to report the schedules of investments required by sections 210.12-12 to 12-14 of Regulation S-X); Item 1 of Form N-CSR (requiring filers to attach a copy of the report transmitted to stockholders pursuant to rule 30e-1 under the Act).

[270] *See* Morningstar Comment Letter. *See generally* International Standards Organization, Securities and related financial instruments -- Classification of financial instruments, ISO 10962:2015 (July 17, 2015), *available at* http://www.iso.org/iso/catalogue_detail.htm?csnumber=44799.

primarily designed to meet the data needs of the Commission and its staff. We have drafted the asset categories in Form N-PORT specifically to address the Commission staff's data needs, whereas many of the existing taxonomies include extraneous information in some areas or insufficient information in other areas. For these reasons, we are adopting the asset categories on Form N-PORT largely as proposed.

Funds will also report, as proposed, for each investment, whether the investment is a restricted security.[271] This disclosure will provide investors and the Commission staff with more information about liquidity risks associated with the fund's investments.

Also as proposed, each fund will 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 GAAP.[272] Commission staff 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.[273] In addition, Commission staff will be better able to identify

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[271] *See* 0 of Form N-PORT. "Restricted security" will have the definition provided in rule 144(a)(3) under the Securities Act [17 CFR 230.144(a)(3)]. *See* General Instruction 0 of Form N-PORT. *See also* amended rule 12-13, nn. 6 and 8 of Regulation S-X, which will require similar disclosures in funds' schedules of investments to identify securities that are restricted. *Cf.* footnote 290 and accompanying and following text.

[272] *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 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 amending Regulation S-X to require that funds identify those investments whose value was determined using significant unobservable inputs. *See infra* section II.C.3.

[273] 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*, 25 REV. FIN. STUD. 55-95 (2011).

anomalies in reported data by aggregating all fund investments industry-wide into the various level categories. These disclosures will also provide investors and the Commission staff with more information about which of the fund's investments are more actively traded, and which investments are less actively traded and thus potentially less liquid. Currently, funds are required to categorize the fair value measurement of each investment in the fair value hierarchy in their financial statements.[274] 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.

Several commenters supported this aspect of our proposal, noting it would enhance portfolio transparency and allow investors, plans, and fund fiduciaries to more accurately evaluate liquidity and valuation risks in funds.[275] Another commenter asserted that our proposal to report the fair value level measurement for each individual investment held by the fund would represent no incremental burden relative to the current burden of reporting the total value of each fair value level category, because reporting systems should already contain the necessary information at the individual security level.[276]

However, one commenter cautioned that different fund families currently employ different accounting practices when classifying similar investments into fair value level hierarchies, and warned that the Commission staff should reconsider expectations that disclosure of these fair value levels would create comparability among different funds with regards to fair

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[274] ASC 820-10-50-2 (Fair Value Measurement-Disclosure-General) 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).

[275] *See* Morningstar Comment Letter; Comment Letter of Harvest Investments, Ltd. (Aug. 11, 2015) ("Harvest Comment Letter").

[276] *See* State Street Comment Letter.

value level hierarchy classifications.[277] Another commenter echoed the sentiment that fair value level determinations reported by funds would likely differ from one fund group to another, and concluded that these determinations should be disclosed in aggregate by fair value level hierarchy classification as opposed to on an individual security basis.[278]

Several commenters also recommended that additional related information be reported, such as the uncertainty of valuation for thinly-traded securities and identification of the primary pricing sources used in determining the fair value level hierarchy of the investments.[279] Lastly, one commenter noted that certain funds of funds' investments may not have fair value level hierarchies assigned to them pursuant to FASB Accounting Standards Update 2015-07, and requested that Form N-PORT be revised to allow funds to report "null" to account for such investments.[280]

In response to the last comment, we are revising Form N-PORT to allow funds to report "N/A" to this item if an investment does not have a fair value level hierarchy assigned to it pursuant to FASB Accounting Standards Update 2015-07. This revision will allow funds to report fair value hierarchy information consistently across Form N-PORT and their shareholder reports.[281]

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277 *See* Interactive Data Comment Letter.

278 *See* Wells Fargo Comment Letter.

279 *See* Comment Letter of Markit (Aug. 11, 2015) ("Markit Comment Letter") (for thinly-traded securities or investments in assets with thinly-traded underlying assets, consider a disclosure indicating the uncertainty of valuation); Harvest Comment Letter (information about primary pricing sources should be made available, and third-party pricing services used should be disclosed on an individual security basis).

280 *See* State Street Comment Letter.

281 *See* 0 of Form N-PORT.

More generally, we acknowledge that there may be differences among fair value level hierarchy classifications between funds, even for the same investments, but believe that reporting of this information could still help Commission staff, investors, and other potential users to identify and monitor investments that may be more susceptible to increased valuation risk and identify potential outliers that warrant additional monitoring or inquiry.

We decline to add the additional information suggested by commenters related to valuation, such as more information regarding thinly-traded securities or position-level information on price sources. We believe that, unlike fair value hierarchy information, which funds already need to track for reporting purposes, this information is not currently reported by funds in any form and could be burdensome to begin reporting relative to the additional value it may provide. Accordingly, we decline to revise Form N-PORT to require funds to report this additional information.

As proposed, Form N-PORT would have required funds to report the country that corresponds to the country of investment or issuer based on the concentrations of the investment's risk and economic exposure, and, if different, the country in which the issuer is organized. As adopted, Form N-PORT will switch the sequence of those disclosures, thus requiring funds to report the country in which the issuer is organized and, if different, the country that corresponds to the country of investment or issuer based on the concentrations of the investment's risk and economic exposure.[282] These disclosures will provide the Commission

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[282] *See* 0 of Form N-PORT.

Also, as discussed further below, we are making the country of risk and economic exposure a nonpublic field in all Form N-PORT filings. Under the proposal, this would have meant that funds would be publicly reporting nothing if the country of risk and economic exposure were the same as the country in which the issuer is organized, because in that situation funds would only be reporting the country of risk and economic exposure, which will be nonpublic in Form N-PORT. Accordingly,

staff 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 will assist the Commission in understanding the country-specific risks associated with such investments. For example, knowing the country of risk and economic exposure, including the country in which an issuer is organized, is important for understanding the effect of such investments in a portfolio when that country might be going through times of economic stress (*e.g.*, monetary controls or sanctions) or political unrest or other emergency circumstances.

We received mixed comments on this aspect of our proposal. Commenters generally supported the requirement to report the country in which the issuer is organized.[283] Commenters generally viewed the determination of country of risk as inherently subjective, but differed in terms of whether the Commission should provide a particular standard for determining the country of risk or whether the Commission should permit funds to report differing information for the same securities as a result of the existing diversity of approaches currently used by funds

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we are requiring funds to report the country in which the issuer is organized as the default, and, only if different, to also report the country of risk and economic exposure.

[283] *See, e.g.,* SIFMA Comment Letter I; Dreyfus Comment Letter; Morningstar Comment Letter.

and service providers.[284] Commenters also disagreed regarding whether this information should be publicly reported or even reported at all.[285]

Partly in response to these concerns, and as discussed above, we are revising Form N-PORT to include instructions clarifying that in reporting information on Form N-PORT, funds may generally use their own internal methodologies and the conventions of their service providers, provided that the information they report is consistent with information that they report elsewhere (*e.g.,* the fund's schedule of portfolio holdings as prepared pursuant to Regulation S-X).[286] For example, we understand that for issuers with operations in multiple countries, some funds commonly use the issuer's country of domicile for purposes of internal recordkeeping and analysis and may choose to do the same for reporting country of risk on Form N-PORT, whereas funds that utilize other methodologies may prefer to rely upon their own chosen methodologies instead. Additionally, as discussed further below in section II.A.4, we are

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[284] *See, e.g.,* Wells Fargo Comment Letter (the Commission should include guidance and instructions for determining the country with the greatest concentration of risks and economic exposure in order to achieve consistent reporting across funds); Interactive Data Comment Letter (the Commission should support the prevailing diversity of approaches towards identifying country of risk as a necessary consequence of such reporting); SIFMA Comment Letter I (the Commission should either limit the disclosure requirement to country of issuer organization or else clarify that funds may use classifications generated by existing methodologies or available service providers); ICI Comment Letter (it is important for funds to have the flexibility to make these determinations using their own good faith judgment).

[285] *See, e.g.,* Interactive Data Comment Letter (supporting the disclosure of country of risk); Schwab Comment Letter (public disclosure may lead to investor confusion); Fidelity Comment Letter (the Commission should require non-public disclosure of this information until it is standardized); Morningstar Comment Letter (opposing the reporting of country of risk to the extent this information is proprietary and subjective, but supporting country of issuance on the grounds that it is more objective).

[286] *See* General Instruction 0 of Form N-PORT ("Funds may respond to this Form using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors. However, the methodologies and conventions must be consistently applied and the Fund's responses must be consistent with any instructions or other guidance relating to this Form."). *See also supra* footnote 77 and accompanying and following text.

making the country of risk and economic exposure a nonpublic field in all Form N-PORT filings.[287]

More generally, several commenters sought confirmation that funds would not be required to look through any entities in its portfolio holdings except as specifically instructed in Form N-PORT.[288] As discussed above, Form N-PORT requires funds to disclose information about "each investment held by the Fund and its consolidated subsidiaries."[289] Thus, Form N-PORT requires funds to report information about each underlying investment in a CFC, because CFCs are consolidated subsidiaries in funds' financial statements for reporting purposes.

The proposed form also would have required funds to identify each investment that is "illiquid."[290] We note that the Liquidity Adopting Release, which we are adopting today, addresses liquidity risk management programs for open-end funds, which, among other things, requires information about the liquidity of fund investments to be reported on Form N-PORT.[291]]

ii. Debt Securities

In addition to the information required above, as proposed, 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 potential convertibility into equity of such investments, as such

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[287] *See infra* footnote 515 and accompanying and following text.

[288] *See* Invesco Comment Letter; Schwab Comment Letter; CRMC Comment Letter; SIFMA Comment Letter I.

[289] *See* Part C of Form N-PORT ("For each investment held by the Fund and its consolidated subsidiaries, disclose the information requested in Part C.").

[290] As proposed, Form N-PORT would have defined "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." 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").

[291] *See* Liquidity Adopting Release, *supra* footnote 9.

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 the annualized interest rate and indicating whether fixed, floating, variable, or none).[292]

While commenters were generally supportive of this requirement, they requested that we provide clear standards for reporting or more granular classifications.[293] For example, commenters noted that a more granular classification scheme for debt instruments is useful for investors in understanding the nature of the obligation supporting the instrument, such as issuers, security type, guarantors, and the investment's structure.[294] However, while more granular classifications could be useful to investors, we do not believe that the additional information would be justified in light of the burdens imposed because we believe that the classification being adopted provides sufficient detail to allow the staff, investors, and other potential users, to understand the nature of the fund investments. As a result, we are adopting this requirement as proposed.[295] Another commenter recommended that we consider a minimum reporting threshold of 10% of exposure to each security type for additional security-specific reporting for debt securities, convertible securities, repurchase and reverse repurchase agreements, and

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[292] *See* Item C.9.a and Item C.9.b of proposed Form N-PORT.

[293] *See* SIFMA Comment Letter I (supporting all required information with the exception of the disclosures relating to securities in defaults and arrears); Wells Fargo Comment Letter; Interactive Data Comment Letter ("In general, we believe that a more granular classification scheme for debt instruments is useful for investors in understanding the nature of the obligation supporting the instrument"); State Street Comment Letter; Morningstar Comment Letter.

[294] *See* Interactive Data Comment Letter (additional disclosures should include classification of debt securities (*e.g.*, corporate bonds, municipal securities), bond insurance, conduit municipal filings, letters of credit, and identification of debt ranking); State Street Comment Letter (additional disclosures should include issuer, security type, security structure, guarantor, country, sector, and rating).

[295] *See* 0 and 0 of Form N-PORT.

derivatives.[296] However, as we discuss below in section II.A.2.g.iv, we believe that it is important that the Commission and investors have transparency in a fund's investments and do not believe that a reporting threshold for such instruments is appropriate, as it would not allow the Commission and investors to fully understand a fund's risks. Moreover, security-level reporting of a fund's underlying investments in such securities are currently reported in a fund's financial statements.[297]

As proposed, 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.[298] Several commenters raised concerns regarding these disclosures. For example, one commenter argued that the public disclosure on default, arrears, or deferred coupon payments raises competitive concerns when a debt security is issued by a borrower that is a private company, as private borrowers may avoid registered funds in order to limit public disclosure if the company becomes distressed.[299] The commenter noted that public disclosure that a borrower is or may be financially distressed could increase prepayment risk and be disruptive to the fund's or adviser's relationship with the borrower.[300] Moreover, this disclosure could also harm private issuers by disclosing their financial distress to vendors and key employees and customers.[301] While we recognize that the disclosure of a private issuer in distress could have a negative

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[296] *See* Wells Fargo Comment Letter.

[297] *See generally* Article 12 of Regulation S-X.

[298] *See* Item C.9.c through Item C.9.e of proposed Form N-PORT.

[299] *See* Simpson Thacher Comment Letter.

[300] *See id.*

[301] *See id.*

impact on the issuer, we believe that it is important that Commission staff have access to information relating to fund investments that are in default or arrears in order to monitor individual fund and industry risk. It is similarly important that fund's investors have access to this information so that they can make fully informed decisions regarding their investment. Moreover, default or arrears relating to a fund's investments in private issuer debt are already publicly available on a fund's quarterly financial statements.[302]

Another commenter recommended eliminating the requirements relating to whether a debt security is currently in default or any of the interest payments are in arrears or have been deferred.[303] The commenter noted that these items require a subjective legal analysis on an instrument-by-instrument basis, on which conclusions among funds may vary and thus would not provide meaningful comparable information.[304] For similar reasons, another commenter supported the proposal, but recommended that the Commission should establish a clear standard for designating when a security is deemed to be in arrears.[305] As we previously discussed, this type of analysis and public reporting is not new to funds, as they are required to report results in their financial statements and on their schedules of investments.[306] Rather than provide funds with a definition that may not be applicable in all situations, or inconsistent with their financial statement reporting, we believe that it is more appropriate to allow funds to continue to use their

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[302] *See* rule 12-12, n. 5 of Regulation S-X.

[303] SIFMA Comment Letter I.

[304] *Id*.

[305] *See* Wells Fargo Comment Letter.

[306] *See* rule 12-12, n. 5 of Regulation S-X.

own methodology in responding to these items on Form N-PORT, subject to the limitations of General Instruction G.[307]

As we discuss in more detail in section II.C.3 below, commenters noted that in-kind payments where *the fund* elects to receive payments-in-kind (as opposed to cash) do not raise the same risks as *an issuer* that only makes in-kind payments, because such a scenario does not represent an issuer who may be in financial difficulties and cannot pay cash dividends, as opposed to an investor who merely chooses to receive in-kind dividends rather than cash.[308] We agree and are adding an additional clarifying clause to Item C.9.e that a fund should not designate interest as paid-in-kind if the fund has the option to elect an in-kind payment and has elected to be paid-in-kind [309]

Finally, we proposed to require additional information for convertible securities, to indicate whether the conversion is mandatory or contingent.[310] We also proposed 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. For example, based upon staff experience, we believe that the risk and reward profiles for mandatory and contingent conversions vary considerably and, thus we proposed to require disclosure of the type of conversion in order to better understand these risks. Similarly,

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[307] *See* General Instruction 0 of Form N-PORT; *see also supra* footnote 79 and accompanying test.

[308] *See* Comment Letter of American Institute of CPAs (Aug. 17, 2015) ("AICPA Comment Letter"); Comment Letter of PricewaterhouseCoopers LLP (Aug. 7, 2016) ("PwC Comment Letter"); *see also infra* footnote 651 and accompanying text.

[309] *See* 0 of Form N-PORT.

[310] *See* Item C.9.f of proposed Form N-PORT.

we proposed to require disclosure of the conversion ratio and information about the asset into which the debt is convertible. Furthermore, the proposed requirement to provide the delta was also proposed to be required for options, as discussed further below, because convertible securities have optionality.[311] For similar reasons discussed below regarding options, we expressed our belief 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 received several comments relating to the disclosures of convertible securities. One commenter requested that the securities be consistently reported across funds and include additional instructions for calculating delta.[312] Another commenter noted that calculating delta for convertible bonds using the Black-Scholes model, which is commonly used for calculating the delta for options would be impractical and therefore requested further clarification for calculating delta for convertible bonds.[313] As discussed above, while we believe that it is important to receive consistent reporting between funds, we have endeavored to limit burdens on funds, when possible. Thus, rather than provide prescriptive instructions for funds to calculate delta, General Instruction G to Form N-PORT now clarifies that funds may use their own current methodology.[314] For example, based on staff experience, we understand that delta for some

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311 *See* text accompanying and following footnote 384 (discussing information required for options, including delta).

312 *See* State Street Comment Letter (reporting delta should be consistent, but should include the following attributes to define the approach, such as: volatility used, actual volatility used in the calculation, and attributes such as mandatory convertible.).

313 *See* Morningstar Comment Letter.

314 *See* General Instruction 0 of Form N-PORT; *see also supra* section 0.

instruments could be calculated using certain formulas, such as Black-Scholes, while funds might calculate the delta for convertible bonds using a different calculation.[315] Such variations in calculation among funds, or even by the same funds with different types of investments, are permissible so long as the calculations are consistent with how the fund reports information internally and to its current and prospective investors.[316] However, we agree with the commenter that calculating delta for certain convertible securities, such as contingent convertible bonds, may not be possible. We are therefore adding the clarifying instruction to Item C.9.f.v to only provide delta if it is applicable to that security.[317]

Another commenter suggested that we eliminate the additional information proposed in Form N-PORT for convertible securities as they do not represent significant data points from which to assess risk.[318] We, however, believe that the proposed information will not only assist staff with understanding the risks to a fund or the fund industry, it will also be used to better understand fund investments, industry trends, and new and emerging risks. We continue to believe that the items required for convertible securities will be valuable information for the staff, investors, and other potential users. As a result, we are adopting Item C.9 as proposed, subject to the clarifications in Item C.9.e and C.9.f.v. discussed above.[319]

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[315] *See* Morningstar Comment Letter.

[316] *See* General Instruction 0 of Form N-PORT.

[317] *See* 0 of Form N-PORT.

[318] Wells Fargo Comment Letter (eliminate requirements such as whether the conversion is mandatory or contingent, the conversion ratio, information about the asset into which the debt is convertible, and the delta).

[319] *See* 0 of Form N-PORT.

iii. Repurchase and Reverse Repurchase Agreements

As we proposed, and in addition to the information required above for all investments, Form N-PORT requires each fund to report additional information for each repurchase and reverse repurchase agreement held by the fund. The fund will 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.[320] Funds will also report the principal amount and value of collateral, as well as the category of investments that most closely represents the collateral.[321]

These disclosures will enhance the information currently reported regarding funds' use of repurchase agreements and reverse repurchase agreements. Information regarding repurchase agreements will be comparable to similar disclosures currently required to be made by money market funds on Form N-MFP. The categories used for reporting collateral will 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 will be used in

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[320] *See* 0–0 of Form N-PORT. For example, if the fund is engaged in a repurchase transaction in which it is the cash borrower and is transferring securities to the counterparty, the fund will report the transaction as a "reverse repurchase agreement."

[321] *See* 0 of Form N-PORT. Funds will 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 will also include a brief description, including, if applicable, whether it is a collateralized debt obligation, municipal debt, whole loan, or international debt.

Form N-PORT to categories used in other reporting contexts will ease reporting burdens and enhance comparability.[322]

One commenter agreed with our proposed reporting, but recommended, without further elaboration, that reporting of collateral be done on the basis of aggregate security type rather than at the individual security level.[323] Another commenter noted that our proposed reporting would align not only with information reported on Form N-MFP and collected by the Federal Reserve, but also with information reported by fund companies operating globally and offering managed products within Europe.[324]

In contrast, another commenter asserted that funds should apply the same taxonomy when reporting collateral that would be used when reporting the fund's portfolio investments on Form N-PORT, which would result in a more granular disclosure of collateral.[325] Other commenters expressed concerns about public disclosure of this information on a transaction-by-transaction basis and suggested that this information be collected on a firm-by-firm basis instead or be nonpublic, due in part to counterparties' concerns about the disclosure of such information to the public, including their competitors.[326]

After considering these comments, we are adopting this requirement as proposed. As mentioned above, the information that funds will report is aligned with similar information

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322 *See* Money Market Fund Reform 2014 Release, *supra* footnote 33, 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).

323 *See* Wells Fargo Comment Letter.

324 *See* Morningstar Comment Letter.

325 See Interactive Data Comment Letter.

326 *See* SIFMA Comment Letter I; CFA Comment Letter.

publicly reported on Form N-MFP by money market funds, reported to the Federal Reserve by banks, and publicly reported by fund companies operating globally and offering managed products in Europe. Uniform reporting of this information under the common taxonomy that has already been developed and is being used by other financial institutions will help facilitate the linkage of data reported on Form N-PORT with data from other filings and sources. For these reasons, we are not persuaded by the suggestions of one commenter to require collateral to be reported on an aggregate level,[327] nor are we persuaded by the commenter who suggested that funds should apply the same taxonomy when reporting collateral that would be required when reporting the fund's portfolio investments on Form N-PORT,[328] which would result in data that would be incompatible with collateral data reported more broadly elsewhere.

We are also not persuaded by assertions by commenters that this type of information could reveal any strategies competitors could use to their advantage. As indicated above, such information is currently routinely publicly disclosed in other contexts, and commenters did not specify how additional disclosure on Form N-PORT could result in harm. More generally, using a different taxonomy for funds with regards to repurchase and reverse repurchase agreements or keeping such information nonpublic or making it available on only an aggregated basis would hinder the ability of Commission staff as well as investors and other potential users of this information to use the data on Form N-PORT as discussed above.

iv. Derivatives

As discussed above and in the Proposing Release, the current reporting regime for derivatives has led to inconsistent approaches to reporting derivatives information and, in some

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[327] *See* Wells Fargo Comment Letter.

[328] *See* Interactive Data Comment Letter.

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, warrants, and certain convertible bonds, the Commission believes that it is 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, warrants, and certain convertible bonds 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 potential risk of loss.

With this rulemaking, we will 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 will 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.[329]

While we received comments supporting our proposal to include specific information about position-level derivatives,[330] some commenters believed that portfolio-level reporting (as opposed to position-level reporting) would be more appropriate for understanding how funds use

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[329] *See infra* section 0.

[330] *See, e.g.*, CFA Comment Letter ("Given the potential risks associated with certain uses of derivatives, we support the new reporting requirements."); Wells Fargo Comment Letter.

derivatives and funds' derivative-based risks.[331] Other commenters requested that certain position-level disclosures relating to derivatives not be publicly reported noting that this information could be confusing to investors, proprietary, or potentially used by competitors to harm fund investors through front-running or reverse engineering of fund investing strategies.[332] Another requested that derivatives disclosure be subject to certain *de minimis* thresholds.[333]

As we discuss more fully below in section II.A.4, we continue to believe that it is important that, in addition to the Commission, investors receive enough information in order to evaluate an investment and make appropriate investing decisions. Moreover, much of the information required in Form N-PORT is already reported in fund financial statements, or will be with our amendments to Regulation S-X, albeit in an unstructured format. As we describe more fully in section II.A.4 below, we generally believe that the reporting requirements of Form N-PORT are appropriate given the filer's status as a registered investment company with the Commission. Moreover, we generally believe that investors, directly and indirectly, should have access to portfolio information in a structured data format, to assist them with making more

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[331] *See, e.g.*, Dreyfus Comment Letter (explaining that an investment-by-investment approach to reporting does not adequately explain how derivatives are being used); Simpson Thacher Comment Letter (derivatives reporting should focus on metrics based on a portfolio-level analysis).

[332] *See, e.g.*, State Street Comment Letter (details relating to nonpublic indexes or custom baskets underlying options and swaps contracts); MFS Comment Letter (financing rates for OTC derivatives); Pioneer Comment Letter; Wells Fargo Comment Letter; SIFMA Comment Letter I (all derivatives information should be nonpublic); Invesco Comment Letter (reference assets, specific terms, financing rates and contracts terms and conditions); ICI Comment Letter (delta for convertible securities, options, and warrants and derivative financing rates); Oppenheimer Comment Letter (derivatives payment terms, including financing rates); Simpson Thacher Comment Letter (position-level reporting for derivatives); SIFMA Comment Letter II.

[333] *See* Pioneer Comment Letter.

informed investing decisions. We thus believe that certain position-level information should be reported publicly on a quarterly basis.[334]

Consequently, in addition to the information required above for all investments, we proposed to require additional information about each derivative contract in the fund's portfolio. As proposed, funds would report the type of derivative instrument that most closely represents the investment (*e.g.*, forward, future, option, etc.).[335] As discussed above in section II.A.2.a, commenters requested that we provide definitions of certain items in the form, such as "derivatives" and "forwards."[336] For the reasons discussed above, we are not adopting definitions for these items. Finally, a commenter suggested that we organize the disclosure of derivatives as reflected in the recently adopted amendments to Form ADV or Item 30 of Form PF arguing that these items would standardize the organization and reporting of derivatives across different Commission forms.[337]

As discussed below in section II.C.2, the derivative instrument type categories identified in Form N-PORT are similar to the categories disclosed by funds in amended Regulation S-X. We designed these categories to enable funds to report position-level information on their investments in derivatives, while leaving enough flexibility to allow funds to categorize investments in the future that are not currently traded by funds.[338] In contrast, the categories used in the Form ADV Release and Item 30 of Form PF are designed to collect aggregated

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[334] *See infra* section 0.

[335] *See* Item C.11.a of proposed Form N-PORT. 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.

[336] *See, e.g.*, T. Rowe Price Comment Letter ("derivatives" and "forwards"); ICI Comment Letter ("derivatives").

[337] *See* BlackRock Comment Letter. *See also* Form ADV Release, *supra* footnote 3.

[338] *See infra* section 0.

information at the portfolio level for investment advisers advising separately managed accounts and private funds, respectively. As a result, the categories for Forms PF and ADV must be more specific, as the Commission does not receive more detailed position-level information for these types of filers. However, in the case of registered funds, the current disclosure regime requires funds to disclose position-level information to the Commission and investors; thus it is not necessary for more standardization across funds regarding definitions, as the Commission and investors could always review the fund's specific holdings.[339]

In the case of Form N-PORT, in addition to the categories, the Commission will receive additional position-specific data, which will allow the user of the information to better understand each position, without solely relying on the instrument type. However, we acknowledge the potential for confusion regarding the categorization of different types of swaps and are therefore adopting the derivatives instrument type categorizes that we proposed, but subject to a modification in Item C.11.a to include a clarification that specifically identifies that total return swaps, credit default swaps, and interest rate swaps should all be categorized under the "swap" instrument type.[340] We are adopting the derivatives instrument categories subject to this modification.[341]

As proposed, funds would also report the name and LEI (if any) of the counterparty (including a central counterparty).[342] We believe, and some commenters agreed, that this identifying information should assist the Commission, investors, and other potential users in better identifying and monitoring derivatives held by funds and the associated counterparty

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339 *See generally,* Form N-CSR and Form N-Q.

340 *See* 0 of Form N-PORT.

341 *See id.*

342 *See* Item C.11.b of proposed Form N-PORT.

risks.[343] Other than requests to keep counterparty information nonpublic[344] and requests to phase in the disclosure of counterparty LEI's,[345] which are discussed above, we generally received positive comments on our proposed counterparty and LEI disclosures and are adopting them, as proposed.[346]

As proposed, 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.[347] For options and warrants, including options on a derivative (*e.g.*, 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,

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[343] *See generally* Morningstar Comment Letter ("More-frequent portfolio disclosures will improve the counterparty information available to market participants. As a result, market participants could assist the SEC in identifying emerging risks – and they would likely direct assets away from counterparties perceived as excessively risky."); CFA Comment Letter (supporting aspects of the proposal that would require derivative counterparty information); Wells Fargo Comment Letter (same). 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 to FSOC Notice (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 to FSOC Notice (Mar. 25, 2015) (discussing the need to have information about investment vehicles that hold bank liabilities).

[344] *See, e.g.*, SIFMA Comment Letter I.

[345] *See, e.g.*, State Street Comment Letter; BlackRock Comment Letter; *see generally supra* section 0.

[346] *See* 0 of Form N-PORT; *see also* Morningstar Comment Letter; CFA Comment Letter; Wells Fargo Comment Letter. As discussed below in section 0, in response to commenters' suggestions, for Regulation S-X purposes, we are not requiring funds to disclose the counterparty for centrally cleared or exchange traded derivatives. *See, e.g.*, rule 12-13, n. 4 of Regulation S-X. This is because we believe it may be necessary to have information about the central counterparty for a derivative (for example, to compare data with other data available to regulators) but such information may not be necessary for financial statements, where the primary purpose for providing this information to fund investors is to make investors aware of the fund's counterparties and any associated credit risk.

[347] We are requiring similar information on a fund's schedule of investments. *See infra* section 0.

and the unrealized appreciation or depreciation of the option or warrant.[348] Proposed 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.[349] We received comments supporting these items[350] and are adopting them as proposed.[351]

We recognize that some derivatives have underlying assets that are indexes of securities or other assets or a "custom basket" of assets, the components of which are not always publicly available. We proposed requirements to ensure that the Commission, investors, and other potential users are aware of the components of such indexes or custom baskets. As proposed, 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.[352] We proposed 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 adopted in this release, would continue to be required, to disclose their portfolio investments.[353] We proposed that if the index's components are not publicly available as provided above, and the notional amount of the derivative represents 1% or

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[348] *See* Item C.11.c of proposed Form N-PORT. As discussed above, funds would report the number of option contracts in 0 of Form N-PORT. *See also supra* footnote 265 and accompanying text.

[349] *See* Item C.11.c.iii.2 and Item C.11.c.iii.3 of proposed Form N-PORT. 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 are not available), or other unique identifier (if CUSIP, ISIN, and ticker are not available). *See also supra* footnote 254 and accompanying and following text.

[350] *See* Wells Fargo Comment Letter; *see also* MFS Comment Letter.

[351] *See* 0, 0, and Item C.11.c.iii of Form N-PORT.

[352] *See* Item C.11.c.iii.2 of proposed Form N-PORT. If the reference instrument is a derivative, funds would also indicate the category of derivative (e.g., swap) and will provide all information required to be reported on Form N-PORT for that type of derivative. We received no comments on this requirement and are adopting it as proposed.

[353] *See infra* section 0 (discussing proposed rules concerning the public disclosure of reports on Form N-PORT).

less of the NAV of the fund, the fund would provide a narrative description of the index.[354] 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, we proposed that 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.[355]

We received a number of comments on our proposal to publicly disclose the components of the underlying index or custom basket. While some commenters agreed with our proposal,[356] others requested that we include a higher threshold before requiring reporting.[357] Some commenters, for example, suggested that the threshold for requiring any reporting of components be 5% of net asset value of the fund.[358] Others agreed with our proposed 1% threshold but stated that reporting should be based on whether the *net asset value* of the derivative instrument that is relying on the index or custom basket exceeds 1% of the fund's net asset value, rather than the derivative instrument's *notional value* (as was proposed), as net asset value is a better indicator of materiality.[359]

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354 *See supra* footnote 352.

355 *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.

356 *See, e.g.*, Morningstar Comment Letter ("Index providers are earning revenues from the licensing fees embedded in the derivative cost that is born by the fund and therefore its shareholders."); CFA Comment Letter (expressing general support for the proposed derivatives reporting requirements).

357 *See, e.g.*, Wells Fargo Comment Letter (additional index reporting should only be triggered when a derivative represents 5% of NAV); ICI Comment Letter.

358 *See id.*

359 *See, e.g.*, SIFMA Comment Letter I ("The proposal of 1% notional value is entirely different from the predicate requirement on which the Commission says the proposal is based. We believe the original

We continue to believe that it is important for the Commission, investors, and other potential users to have transparency into a fund's exposures to assets, regardless of whether the fund directly holds investments in those assets or chooses to create those exposures through a derivatives contract.[360] Our proposed one percent threshold was based on our experience with the summary schedule of investments, which requires funds to disclose investments for which the value exceeds 1% of the fund's NAV in that schedule.[361] Similar to the threshold in the summary schedule of investments, we believe that 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 nonpublic index for instruments that represent a small amount of the fund's overall value.

Moreover, for purposes of this calculation, we believe that it is appropriate to measure whether such derivative instrument exceeds the 1% threshold based on the derivative's notional value, as opposed to the current market value of the derivative, because derivatives with a small market value could have a much larger potential impact on a fund's performance than the current market value would suggest, and thus believe that a derivative's notional value better measures its potential contribution to the gains or losses of the fund.[362]

1% value requirement is a far better indicator of materiality and should be adopted in this connection as well."); Oppenheimer Comment Letter (1% of net (not notional) value of derivatives).

[360] We are also modifying Regulation S-X to require similar disclosures. *See infra* section 0 (discussing proposed rule 12-13, n. 3 of Regulation S-X).

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

[362] *See* 0 of Form N-PORT. As discussed more fully below, we received several comments relating to the appropriate calculation of notional amount for derivative instruments. *See infra* footnotes 546–550 and accompanying text. We acknowledge that there are multiple ways of calculating notional amount for certain investments. *See id*. While the staff has previously provided examples of acceptable notional amount calculations, *see id.*, funds may use other methods of calculating notional

We also solicited comment on whether we should limit the required disclosure of index components to the top 50 components and/or components that represent more than 1% of the index. In response to this request for comment commenters suggested that once a nonpublic index crosses the reporting threshold, we limit disclosure to the top 50 components and components that represent more than one percent of the index based on the notional value of the derivatives, as this standard is analogous to the current reporting requirement to identify holdings in the summary schedule of investments. Commenters stated that this would reduce reporting burdens for funds that invest in indexes with a large number of components.[363]

Some commenters also objected to the public disclosure of the components underlying an index as that disclosure could harm the intellectual property rights that index providers might assert and, as a result, harm investors who may lose the benefit of index products that would no longer be available to them, should an index provider choose to no longer do business with a fund, rather than have its index's components made publicly available.[364] Other commenters urged the Commission to delete this requirement as information on non-public indexes or custom baskets may be difficult for funds to obtain.[365] As discussed below in section III.B.3.,

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amount so long as the methodology is applied consistently and is consistent with the way the fund reports notional amount internally and to current and prospective investors. *See* General Instruction 0 of Form N-PORT.

[363] *See* current rule 12-12C of Regulation S-X; *see, e.g.*, ICI Comment Letter; Oppenheimer Comment Letter; *see also* SIFMA Comment Letter I (top 5 components or the components reflecting 50% of the index). Commenters also noted their belief that reporting should be based on a percentage of NAV, rather than notional value, as percentage of NAV is a better indicator of materiality. *See* SIFMA Comment Letter I; Oppenheimer Comment Letter; *contra* Morningstar Comment Letter ("Arbitrary limits on positions that should be disclosed for portfolios or reference indexes can mask the risk of an instrument.").

[364] *See, e.g.*, SIFMA Comment Letter I; Comment Letter of MSCI (Aug. 10, 2015) ("MSCI Comment Letter") (even provision of delayed data is a concern).

[365] *See* Simpson Thacher Comment Letter; Dreyfus Comment Letter.

commenters also noted that disclosure of the components of custom baskets underlying swaps are considered by some as proprietary information regarding a fund's investment strategies and could lead to the indexing strategy being imitated, resulting in harm to the fund and its investors through reverse engineering and free-riding.[366]

We believe that it is fundamental to the reporting by funds that fund shareholders have access to the information necessary to understand the exposures of their fund's investments.[367] Moreover, we note that a fund whose investment objective tracks an index or custom basket is currently required to publicly disclose its direct holdings quarterly in its financial statements.[368] Likewise, funds should not be able to use proprietary indexes to mask exposures to investments underlying a custom basket for a swap or options contract.[369]

Moreover, while some commenters noted that obtaining information on the components of an underlying index may be difficult,[370] again, we believe that fund shareholders need sufficient information to understand their fund's exposures, even if such transparency requires the fund to renegotiate licensing agreements or, in some cases results in the fund having to forego investments in a custom basket or nonpublic index.[371] As discussed further in section II.A.4, below, we believe that we have mitigated the potential for harm to fund investors that some commenters believed could result from the public reporting of non-public indexes and custom baskets by delaying the public reporting of reports on Form N-PORT by 60-days.

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366 *See, e.g.*, SIFMA Comment Letter II; MSCI Comment Letter; *see also infra* section 0.

367 *See* Morningstar Comment Letter.

368 *See generally* Forms N-CSR and N-Q.

369 *See* Morningstar Comment Letter.

370 *See* Simpson Thacher Comment Letter; Dreyfus Comment Letter.

371 *See* Morningstar Comment Letter.

For the reasons discussed above, we believe that it is important that the Commission and investors have full transparency into any index or custom basket that significantly contributes to a fund's NAV. However, we were also persuaded by commenters that, in cases of indexes with a large number of components, and where the index only constitutes a small portion of the fund's investments, disclosure of every component could yield information on underlying investments that constitute only a "miniscule" percentage of the fund's NAV.[372] In these cases, requiring complete reporting of all the components could be burdensome without providing information that is minimally helpful for understanding the role of the investment in the fund. In such situations, limiting component reporting to the largest holdings of an index or custom basket could appropriately reduce reporting burdens while still providing transparency into the investment.

Accordingly, we are adopting a tiered reporting structure for the reporting of the components of an index or custom basket underlying a derivative. For investments in a non-public index or custom basket that represent more than 1%, but less than 5%, of a fund's net assets, funds will be required to report the top 50 components of the basket and, in addition, those components that exceed 1% of the notional value of the index. For investments in a non-public index or custom basket that exceed 5% of a fund's net assets, funds will be required to report all components.

We developed this tiered threshold in response to commenters, discussed above, that suggested a higher *de minimis* threshold of 5% of net assets for requiring any reporting of the underlying components. We recognize that this approach will be more burdensome for funds holding investments that fall within these thresholds than raising the *de minimis* for any reporting

[372] *See* ICI Comment Letter.

of components to 5% of net assets, which was suggested by some commenters. We believe, however, that investments representing between 1% and 5% of a fund's net assets are sufficiently significant to a fund that some reporting of individual components is appropriate and will help the Commission staff and investors to understand a fund's indirect exposures to investments that are the most significant components of the index. Further, limiting reporting for such derivative investments to the top 50 components and those components that exceed 1% of the notional value of the index, which is the same threshold used for the summary schedule of investments, will reduce the reporting burdens relative to the proposal for funds with such investments.[373] Conversely, we acknowledge that limiting the required reporting for those investments representing between 1% and 5% will not provide full transparency into such investments; we believe, however, that this approach appropriately balances providing information that is sufficient for the Commission and investors to understand the composition and risk of such investments, with reducing reporting burdens for funds. For investments in non-public indexes or custom baskets that exceed 5% of a fund net assets, funds will be required to report all components of the index or custom basket, as we believe that full transparency is appropriate for such investments because, as discussed above, funds should not be able to mask significant portions of their investment strategy by using a proprietary index or custom basket.

A commenter also objected to disclosure of unrealized appreciation or depreciation for each component of the index or custom basket arguing that such information would be costly to maintain as the fund would be required to create a record of the value of each underlying security in the index at the time the derivatives contract is entered into.[374] We agree. Moreover, we

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[373] *See* Morningstar Comment Letter; SIFMA Comment Letter I.

[374] *See, e.g.*, ICI Comment Letter.

agree with the commenter that Form N-PORT will already require the fund to provide the unrealized appreciation and depreciation for the option or swap contract on a monthly basis, making the disclosure of unrealized appreciation and depreciation for components of the underlying index unnecessary.[375]

Thus, if the index's or custom basket's components are not publicly available and the notional amount of the derivative represents more than 1%, but less than 5%, of the net asset value of the fund, the fund will 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), and value, for (i) the 50 largest components in the index or custom basket and (ii) any other components where the notional value for that component is over 1% of the notional value of the index or custom basket.[376] Likewise, if the index's or custom basket's components are not publicly available and the notional amount of the derivative represents more than 5% of the net asset value of the fund, the fund will 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), and value, for all of the index's or custom basket's components.[377]

We also proposed to require funds to report the delta of options and warrants, which is the ratio of the change in the value of the option or warrant to the change in the value of the

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[375] *See id*.; *see also* 0 and 0 of Form N-PORT.

[376] *See* 0.2 of Form N-PORT. Short positions in the index, if any, will 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.

[377] *Id*.

reference instrument.[378] This measure reflects the sensitivity of the value of the option or warrant to changes in the price of the reference instrument.

We requested comment on our proposal to require funds to report the delta for options and warrants. Some commenters supported our proposal to require funds to report delta for options and warrants.[379] Others objected to the Commission's proposal to collect delta because they believed it would provide little value because of the time delay between the end of the period date and the reporting date, and could be difficult to calculate.[380] Others did not specifically object to the Commission requiring delta, but requested that delta not be released to the public citing concerns of investor confusion regarding the subjectivity of delta (*i.e.* the calculation of delta is necessarily based upon inputs and assumptions that could vary between funds).[381]

We continue to believe that the reporting of delta for options and warrants will provide the Commission a more accurate measure of a fund's full exposure to the fund's investments in options and warrants. Accordingly, we believe that having the measurement of delta for options is important for the Commission to measure the impact, on a fund or group of funds that holds options on an asset, of a change in such asset's price. Also, as the Commission has previously observed, funds can use written options as a form of obtaining a leveraged position in an

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[378] *See* Item C.11.c.vii of proposed Form N-PORT.

[379] *See, e.g.*, Morningstar Comment Letter (requesting clarity on specific method to calculate delta); Wells Fargo Comment Letter.

[380] *See, e.g.*, Dreyfus Comment Letter (delta statistic may be of limited value because of the time lag associated with reporting); Simpson Thacher Comment Letter (obtaining information on delta may be difficult for funds).

[381] *See, e.g.*, ICI Comment Letter.

underlying reference asset.[382] Having a measurement of exposures created through this type of leverage can help the Commission 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. Thus, while we acknowledge that the Commission will receive delta 30 days after the reporting date, it will still be a useful tool for the Commission and its staff to understand the fund's relative exposures to changes in the price of the underlying reference asset. Moreover, as discussed more fully below in section II.A.4, for the reasons discussed in that section, we have determined to make the reporting of delta non-public for all three months, which should mitigate commenters concerns regarding investor confusion relating to the subjectivity of calculating delta. Finally, based upon staff experience, we believe that it is general industry practice to calculate delta for options, warrants, and swaps.

As a result, we are adopting the requirement that funds report delta for options and warrants as proposed. While one commenter noted that there are a variety of models to calculate delta and requested a specific approach to calculating delta, based on staff experience analyzing these metrics, we believe that such differences are not so large that the results would not be useful to the staff. Therefore we are not requiring specific delta formulas be used.[383] As a result, in order to reduce burdens and provide clarity to funds, as discussed above, we are adopting an instruction that will allow funds to use their own (or their service provider's) methodologies to

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382 *See* Derivatives Proposing Release, *supra* footnote 7, at 80886.

383 *See* Morningstar Comment Letter ("Academic research recommends the use of a variety of models to calculate delta depending on the instrument: equity option, swaption, foreign exchange option, interest-rate options, and others. The proposal could be modified to define a specific approach with specific derivations of inputs for the most common type of derivatives.").

calculate data for reports on Form N-PORT, including delta, subject to the instruction and other guidance relating to the Form.[384]

For futures and forwards (other than foreign exchange forwards, which share similarities with foreign exchange swaps and should be reported accordingly as discussed below), as proposed, 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.[385] The description of the reference instrument would conform to the same requirements as the description of reference instruments for warrants and options.[386]

One commenter noted that the terms "foreign exchange swaps" and "foreign exchange forwards" are defined terms under the Commodity Exchange Act, as amended by the Dodd-Frank Act and such terms exclude non-deliverable forwards, which are included in the Commodity Exchange Act's definition of swaps. As the commenter pointed out, such distinctions between deliverable and non-deliverable forwards are not relevant in the context of reporting of forward contracts on Form N-PORT.[387] Accordingly, in order to avoid confusion, we are replacing the terms "foreign exchange swaps" and "foreign exchange forwards" with terms used in Regulation S-X, "forward foreign currency contracts" and "foreign currency

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384 *See* General Instruction 0 of Form N-PORT.

385 *See* Item C.11.d of proposed Form N-PORT.

386 *See* Item C.11.d.ii of proposed Form N-PORT. *See also supra* footnote 349.

387 *See* SIFMA Comment Letter I (the definitions of foreign exchange swaps and foreign exchange forwards include a distinction between deliverable and non-deliverable foreign exchange contracts). *See also* Department of Treasury, Determination of Foreign Exchange Swaps and Foreign Exchange Forwards under the Commodity Exchange Act (Nov. 16, 2012) (exempting foreign exchange swaps and foreign exchange forwards from the definition of "swap"); rule 3a69-2(c)(1) of the Securities Exchange Act [17 CFR 240.3a69-2].

swaps," which make no distinction between deliverable and non-deliverable foreign exchange contracts.[388] Other than modifying these terms, which should have no effect on how information is reported on Form N-PORT, we received no other comments to this section of Form N-PORT. We are therefore adopting the reporting for futures and forwards as proposed.[389]

We also received no comments relating to our proposed elements for reporting of foreign forward foreign currency contracts and foreign currency swaps (other than the above-mentioned term changes) and are adopting it substantially as proposed with one clarifying instruction with respect to reporting depreciation.[390] Funds will therefore report the amount and description of currency sold, amount and description of currency purchased, settlement date, and unrealized appreciation or depreciation.[391]

For swaps (other than foreign currency swaps), as proposed, 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 to be paid or received; floating or fixed rates to be paid and received; and payment frequency.[392] The description of the reference instrument would conform to the same requirements as the description of reference instruments

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388 *See* rule 12-13B of Regulation S-X [17 CFR 210.12-13B]; *see also infra* section 0.

389 *See* 0 of Form N-PORT.

390 Throughout, Item C.11, where funds must report unrealized appreciation or depreciation, we added the clarifying instruction that depreciation should be reported as a negative number. *See* 0, 0, 0, 0, and 0 of Form N-PORT.

391 *See* 0 of Form N-PORT.

392 *See* Item C.11.f of proposed Form N-PORT. 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.

for forwards and futures.[393] Funds would also report upfront payments or receipts, unrealized appreciation or depreciation, termination or maturity date, and notional amount.[394]

Commenters expressed concern that publicly disclosing financing rates for swaps contracts could harm shareholders as financing rates are commercial terms of a deal that are negotiated between the fund and the counterparty to the swap.[395] As several commenters discussed, 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.[396] Counterparties could also choose not to transact with funds as a consequence of this disclosure, increasing the competition for the remaining counterparties resulting in higher fees for funds. However, the increased disclosure of a swap's terms may also improve the ability of other funds to negotiate more favorable terms resulting in more favorable fees and financing terms for funds. Further, we designed Form N-PORT to provide information sufficient to allow our staff, investors, and other potential users to better understand the investments held in a fund's portfolio. Without information like the payment terms for derivative instruments, valuing the risks and rewards of such an investment could be difficult for investors and other potential users. Moreover, in order for the Commission to understand such investments, the Commission staff must have access to the terms and conditions of such investments, of which the financing rates are a critical part.

One commenter noted that proposed Form N-PORT did not include certain data elements that relate to the detailed calculations of cash flows, such as inflation index based values and lags

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393 *See id.*

394 *See* Item C.11.f.ii –Item C.11.f.v of proposed Form N-PORT.

395 *See, e.g.,* MFS Comment Letter; Invesco Comment Letter; ICI Comment Letter (public benefit of disclosure does not outweigh potential competitive harm). The commenters' concerns regarding the public reporting of financing rates is discussed in more detail below in section 0.

396 *Id*.

associated with principal resets for over-the-counter swaps and caps and floors embedded in swaps.[397]

As we discussed above, as proposed, Form N-PORT would require funds to provide a description and terms necessary for a user of financial information to understand the terms of payments to be paid and received.[398] We recognize that in complying with these instructions funds could determine that they should report terms like those suggested by the commenter for certain instruments. Given the variety of swaps instruments – for example, interest rate swaps, credit defaults swaps, total return swaps, each with its own respective terms and conditions – however, we do not believe that it is appropriate to specify the terms of the swap with the level of granularity suggested by the commenter beyond what we specified in the instructions to Form N-PORT. As a result, we are adopting Form N-PORT's swaps reporting section substantially as proposed. [399]

Finally, for derivatives that do not fall into the categories enumerated in Form N-PORT, we proposed that funds would provide a description of information sufficient for a user of financial information to understand the nature and terms of the investment.[400] 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.[401] As proposed, the description of the reference instrument would conform to the same requirements as the

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397 *See* Morningstar Comment Letter.

398 *See supra* footnote 392.

399 *See* 0 of Form N-PORT.

400 *See* Item C.11.g of proposed Form N-PORT.

401 *See* Item C.11.g.i of proposed Form N-PORT.

description of reference instruments for options and warrants.[402] Funds would also report termination or maturity (if any), notional amount(s), unrealized appreciation or depreciation, and the delta (if applicable).[403]

We received no comments on this aspect of the proposal other than one commenter that noted that the proposed list of derivative "categories" could leave major categories of derivatives to be reported as "other."[404] As we discussed above, we continue to recognize that new derivatives products will evolve, and therefore Form N-PORT's derivatives reporting requirements are designed to be flexible enough to include the reporting of new investment products that may emerge. Moreover, funds may only categorize a derivatives as "other" if none of the identified categories applies, thus limiting the number of derivatives that will be categorized as "other."[405] For these reasons, we are adopting the reporting requirements for other derivatives as proposed.[406]

v. Securities on Loan and Cash Collateral Reinvestment

As discussed above, and as we proposed, we will 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.[407] We are also requiring, substantially as proposed, that funds report on Form N-

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402 *See id*; s*ee also supra* footnote 393 and accompanying text.

403 *See* Item C.11.g.ii–Item C.11.g.v of proposed Form N-PORT.

404 Morningstar Comment Letter.

405 *See also* Morningstar Comment Letter (noting that the current taxonomy for Form N-PORT does not provide sufficient details for credit default swaps – including whether credit default swaps should be categorized as swaps or options). As discussed above, we have modified the swaps section of the form to make clear credit default swaps would be reported as a swap.

406 *See* 0 of Form N-PORT.

407 *See supra* footnote 196 and preceding, accompanying, and following text.

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 held by the fund, a fund will report: (1) whether any portion of the investment was on loan by the fund, and, if so, the value of the investment on loan;[408] (2) whether any amount of the investment represented reinvestment of the cash collateral and, if so, the dollar amount of such reinvestment;[409] and (3) whether any portion of the investment represented non-cash collateral treated as part of the fund's assets and received to secure loaned securities and, if so, the value of such non-cash collateral.[410]

These disclosures will 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 information will also allow us to determine whether funds that are relying on exemptive orders or no-action assurances to engage in securities lending are complying with any associated conditions regarding collateral received for such activities. This will 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 risk and risk of loss, as well as better understand any potential leverage creation through the reinvestment of collateral.[411] These disclosures will also help identify those investments that funds might have to sell or redeem in the event of widespread termination or default by borrowers. More generally, we expect that this information will help to address concerns

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[408] *See* 0 of Form N-PORT.

[409] *See* 0 of Form N-PORT.

[410] *See* 0 of Form N-PORT.

[411] As discussed above, commenters to the FSOC Notice suggested that enhanced securities lending disclosures could be beneficial to investors and counterparties. *See supra* footnote 190.

expressed by industry participants about the lack of transparency in funds' securities lending transactions.[412]

One commenter suggested that non-cash collateral information should not be publicly disclosed but did not elaborate on why such information should be kept nonpublic.[413] As discussed herein, we believe that disclosure of this information can serve many purposes, including improving the ability of Commission staff, as well as investors, brokers, dealers, and other market participants to better understand the collateral received by funds and the associated potential liquidity and loss risks, as well as identification of those instruments that one or more funds might have to sell in the event of default by borrowers. For these reasons, we are requiring, as proposed, that this information be publicly reported on Form N-PORT.

Several commenters recommended that non-cash collateral be reported in aggregate terms rather than as individual portfolio positions.[414] As discussed above in section II.A.2.d, one commenter explained that funds typically do not treat non-cash collateral as fund assets and consequently do not generally include non-cash collateral in their schedule of portfolio investments.[415] As discussed above, we are revising Form N-PORT to add a new Item requiring funds to report the aggregate principal amount and aggregate value of each type of non-cash

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412 *See, e.g.*, SEC, Transcript of 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).

413 *See* Schwab Comment Letter.

414 *See* RMA Comment Letter; ICI Comment Letter.

415 *See* ICI Comment Letter.

collateral received for loaned securities that is not treated as a fund asset.[416] If the fund does treat the non-cash collateral as a fund asset and it is therefore included in the fund's schedule of portfolio investments, the fund will identify such assets on an investment-by-investment basis, as proposed.[417]

h. Miscellaneous Securities

In Part D of Form N-PORT, as we proposed, and as currently permitted by Regulation S-X, funds will have the option of identifying and reporting certain investments as "miscellaneous securities."[418] Specifically, Form N-PORT permits funds to report an aggregate amount not exceeding 5 percent of the total value of their 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 report to shareholders or otherwise made available to the public. Funds electing to separately report miscellaneous securities will use the same Item numbers and report the same information that would be reported for each investment if it were not a miscellaneous security.[419] Consistent with the disclosure regime under Regulation S-X, all such responses regarding miscellaneous securities will be nonpublic and will 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-

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[416] *Id*. (the Commission should require an additional item in which funds could disclose the details of any non-cash collateral received). *See* 0 of Form N-PORT. *See also supra* footnote 208 and accompanying text.

[417] *See* 0 of Form N-PORT.

[418] *See generally supra* footnote 99 and accompanying text.

[419] *See* Part D of Form N-PORT.

PORT will otherwise be publicly available.[420] 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.[421] The only information publicly reported for miscellaneous securities will be their aggregate value, which is consistent with current practice as permitted by Regulation S-X.[422]

Commenters generally supported the separate nonpublic disclosure of individual miscellaneous securities, and noted that the current reporting provisions under Regulation S-X regarding miscellaneous securities have been effective and not abused.[423] One commenter sought clarification as to whether an investment identified as a miscellaneous security in reports filed on Form N-PORT for the third month of each fiscal quarter (*i.e.*, reports that would be made public) would also need to be identified as a miscellaneous security in reports for the first and second months of each fiscal quarter (*i.e.*, reports that would be nonpublic).[424] As discussed further below, all information reported on Form N-PORT for the first and second months of each fiscal quarter will be nonpublic. Consequently, there is no need for funds to designate any of their investments for those reporting periods as miscellaneous securities. For additional clarity, however, we are adopting a modification from the proposal to instruct funds to only identify

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

[421] *See, e.g.*, Shareholder Reports And Quarterly Portfolio Disclosure Of Registered Management Investment Companies, Investment Company Act Release No. 26372 (Feb. 27, 2004) [69 FR 11243 (Mar. 9, 2004)] ("Quarterly Portfolio Holdings Adopting Release") at n. 64 and accompanying text.

[422] *See supra* footnotes 98–99 and accompanying text.

[423] *See* SIFMA Comment Letter I; Morningstar Comment Letter.

[424] *See* CRMC Comment Letter.

miscellaneous securities in reports filed for the last month of each fiscal quarter.[425] Another commenter questioned whether miscellaneous securities should be measured at fair value or estimated exposure, and recommended that miscellaneous securities should be measured at notional, or delta-adjusted exposure, rather than book value.[426] As we noted in the proposal, our intent in allowing funds to designate certain investments as miscellaneous securities is to allow funds to continue to report such information consistent with current practice as permitted by Regulation S-X.[427] Accordingly, we continue to believe that value rather than exposure should be used in determining which investments qualify as miscellaneous securities (*i.e.*, investments totaling 5 percent or less of the total value of the fund's portfolio), which is consistent with current practice as permitted under Regulation S-X. For these reasons, we are adopting this aspect of Form N-PORT as proposed.

i. Explanatory Notes

In Part E of Form N-PORT, as was proposed, funds will have the option of providing explanatory notes relating to the filing.[428] 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) will be publicly available, whereas notes provided in nonpublic filings of Form N-PORT will remain

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425 *See* Part D of Form N-PORT ("For reports filed for the last month of each fiscal quarter, report miscellaneous securities….").

426 *See* Morningstar Comment Letter.

427 *See* Proposing Release, *supra* footnote 7, at n. 149 and accompanying and following text.

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

nonpublic.[429] Funds will also report, as applicable, the Part or Item number(s) to which the notes are related.[430]

These notes, which will 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 seemingly anomalous responses that may benefit from further explanation or discuss issues that could not be adequately addressed elsewhere given the constraints of the form. Similar information in other contexts has 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.[431]

One commenter supported the proposal to allow funds to report explanatory notes, but requested that the notes remain nonpublic.[432] Likewise, another commenter recommended that funds be allowed to designate explanatory notes as nonpublic, on a case-by-case basis.[433] We are partially persuaded by these requests. We believe that to the extent the explanatory notes would be helpful to investors, such notes ideally should be publicly available. We also note that similar explanatory notes are available on Form N-MFP and are publicly available.[434] However, we recognize that certain items on Form N-PORT will involve nonpublic information, and thus we believe it is appropriate that explanatory notes related to those items should be nonpublic as well.

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[429] *See infra* section II.A.4.

[430] *See* Part E of Form N-PORT.

[431] *See, e.g.*, Item C.24 of Form N-MFP ("Explanatory notes. Disclose any other information that may be material to other disclosures related to the portfolio security.").

[432] *See* SIFMA Comment Letter I.

[433] *See* Dechert Comment Letter.

[434] *See* Item C.24 of Form N-MFP ("Explanatory notes. Disclose any other information that may be material to other disclosures related to the portfolio security. If none, leave blank.").

As a result, we have determined that explanatory notes related to nonpublic items such as miscellaneous securities, country of risk and economic exposure, or delta for individual options, warrants, and convertible securities will be nonpublic.[435] However, explanatory notes related to other items on Form N-PORT will be publicly available.

As discussed above, funds may generally use their own internal methodologies and the conventions of their service providers in reporting information on Form N-PORT.[436] Funds may explain any of their methodologies, including related assumptions, in Part E of Form N-PORT.[437]

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, as proposed, a fund will also attach the fund's complete portfolio holdings as of the close of the period covered by the report. These portfolio holdings will be presented in accordance with the schedules set forth in §§210.12-12 to 12-14 of Regulation S-X, and will not be required to be reported in a structured data format.

As discussed further below in section II.B, we are rescinding Form N-Q because reports on Form N-PORT for the first and third fiscal quarters will 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 also recognize that some individual investors may not want to access the data in an XML format. We believe that such investors might prefer that portfolio holdings schedules for the first and third

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[435] *See supra* footnotes 282–287 and accompanying and preceding text (discussing country of risk and economic exposure) and footnotes 378–381and accompanying text (discussing delta for options, warrants, and convertible securities).

[436] *See supra* footnote 79.

[437] *See* Instruction G to Form N-PORT ("A Fund may explain any of its methodologies, including related assumptions, in Part E.").

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, as proposed, we are requiring that, for reports on Form N-PORT for the first and third quarters of a fund's fiscal year, the fund will 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 will 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. This will 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.

Consistent with current practice and our proposal, funds will 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.[438] In addition, although we proposed that 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, we have modified this requirement from the proposal to allow funds 60 days.

Several commenters requested that funds be permitted to file Regulation S-X compliant portfolio holdings schedules within 60 days after the end of the reporting period for the first and

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[438] *See supra* footnote 27 (discussing current requirements to transmit reports to shareholders)*; infra* section II.C (discussing our amendments to Regulation S-X).

third fiscal quarters consistent with how Form N-Q is filed today, rather than within 30 days after the end of the reporting period, as we proposed.[439] In light of the concerns raised by commenters about the time needed to prepare, validate, and file this information, as well as the fact that these schedules are designed for the benefit for investors rather than the Commission and regardless of when this information is filed with us it would not be made public to investors until 60 days after the end of the reporting period, we are extending the deadline to file such information until 60 days after the end of the relevant reporting period for the first and third fiscal quarters.[440]

3. Reporting of Information on Form N-PORT

As discussed above, we proposed that funds would report information on Form N-PORT in XML, so that Commission staff, investors, and other potential users could download structured data for immediate aggregation and comparison, for example by creating 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.[441] By contrast, requiring that reports on Form N-PORT be structured would allow the Commission and other potential users to combine information from more than one report in an automated way to, for example, construct a data base of fund portfolio investments without additional manual entry.[442]

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439 *See* Oppenheimer Comment Letter; State Street Comment Letter; Vanguard Comment Letter; Pioneer Comment Letter; Invesco Comment Letter; SIFMA Comment Letter I; ICI Comment Letter.

440 *See* Part F of Form N-PORT.

441 Forms N-CSR and N-Q are required to be filed in HTML or ASCII/SGML. *See* rule 301 of Regulation S-T [17 CFR 232.301]; EDGAR, Filer Manual – Volume II, Version 27 (June 2014) at 5-1, *available at* https://www.sec.gov/info/edgar/edgarfm-vol2-v27.pdf.

442 *See, e.g.*, IDC Comment Letter ("We fully support the SEC's efforts to collect information in a structured data format to enhance its ability to aggregate and analyze the information and data."); *but*

Most commenters generally supported reporting in a structured format. Several commenters supported our proposal to require reports on Form N-PORT in XML, [443] while others advocated for the eXtensible Business Reporting Language ("XBRL"), a tagged system that is based on XML and was created specifically for the purpose of reporting financial and business information.[444] Another commenter noted that the Commission should standardize the formatting requirements across all fund reporting in order to ease the burden on funds that would have to comply with different formatting requirements (*i.e.*, ASCII/TXT, HTML, XBRL, XML).[445] Finally, another commenter noted that much of the information that will be reported in reports on Form N-PORT is already available in other Commission filings and is duplicative.[446]

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 is the most appropriate method of structuring this type of

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see Comment Letter of John Wahh (May 27, 2015) ("Wahh Comment Letter") (questioning why the Commission needs to require structured data for funds); Comment Letter of L.A. Schnase (July 2, 2015) ("Schnase Comment Letter") (questioning whether requiring structured reporting is appropriate or necessary for fund filings). *See also* Proposing Release, *supra* footnote 7, at 92-93.

443 *See, e.g.*, SIFMA Comment Letter I; ICI Comment Letter; Morningstar Comment Letter ("We believe a single standard XML framework, as either an extension of current schema or an alignment with the emerging interoperability of the ISO standard, could ease reporting burdens.").

444 *See, e.g.*, Comment Letter of XBRL US (Aug. 11, 2015) ("XBRL US Comment Letter"); Comment Letter of Deloitte & Touche LLP (Aug. 11, 2015) ("Deloitte Comment Letter"); *but see* Morningstar Comment Letter ("Extensible Business Reporting Language has had very limited success, and certain aspects of the standard are too lenient for regular data validation.").

445 *See* Schnase Comment Letter (Commission should also ease the burdens on funds by allowing funds to input their data through a pre-formatted web portal or web form). Based on staff experience with XML filings, we believe that it is actually less burdensome for most funds to report fund information directly into an XML filing, rather than go through the time consuming exercise of manually entering fund data into a pre-formatted web form.

446 *See* Wahh Comment Letter.

data.[447] Moreover, the interoperability of data between Forms N-MFP, PF, and N-PORT will aid the staff with cross-checking information reported to the Commission and in monitoring the fund industry.[448] As discussed further below in the economic analysis, the XML format will also improve the quality of the information disclosed by imposing constraints on how the information will be provided, by providing a built-in validation framework of the data in the reports.[449] While we acknowledge that some of the information we are requiring in Form N-PORT is duplicative to information filed in other forms, filing this information in an XML format will allow the staff to more efficiently review and analyze data for industry trends and risk monitoring purposes. We are therefore adopting the requirement that reports on Form N-PORT be filed in an XML format as proposed.[450]

We considered, as several commenters suggested, alternative formats to XML, such as XBRL. However, while XBRL allows issuers to capture the rich complexity of financial information presented in accordance with GAAP, we believe that XML is more appropriate for the reporting requirements that we are adopting. Form N-PORT, as well as Form N-CEN, as adopted, will contain a set of relatively simple characteristics of the fund's portfolio- and position-level data, such as fund and class identifying information, that is more suited for XML than XBRL, as explained further in section III.F below.

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[447] We anticipate that the XML structured data file would be compatible with a wide range of open source and proprietary information management software applications. Continued advances in structured 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, Investment Company Act Release No. 29132 (Feb. 23, 2010) [75 FR 10059 (Mar. 4, 2010)] ("Money Market Fund Reform 2010 Release") at n. 341.

[448] *See* Morningstar Comment Letter.

[449] *See infra* section III.B.2.

[450] *See also infra* section 0.

We also considered, as one commenter suggested, ways to standardize the formatting requirements across all fund reporting. However, based on staff experience reviewing fund filings, we believe that different filing formats (*e.g.*, PDF, HTML, XML) are appropriate for different types of filings, depending on their uses. For example, while PDF and HTML filings might be appropriate based on the filer, the content, and the end-user of the data, the PDF and HTML formats are not designed for conveying large quantities of data that require more robust validations to ensure data quality and consistency for aggregation, comparison, and analysis purposes.[451]

We proposed that funds report information on Form N-PORT on a monthly basis, no later than 30 days after the close of each month.[452] For the reasons discussed herein, 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.[453]

Several commenters requested that we instead require quarterly reporting, either permanently or for an initial period, citing to either data security concerns (discussed below), the increased filing burdens of Form N-PORT, or both.[454] However, the quarterly portfolio reports

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[451] *See id.*

[452] 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.

[453] 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* footnote 27 and accompanying text.

[454] *See, e.g.*, Comment Letter of Dodge & Cox (Aug. 7, 2015) ("Dodge & Cox Comment Letter") (data security concerns); ICI Comment Letter (Commission should ensure that it is prepared to protect

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 will increase the frequency of portfolio reporting, which we believe will be useful to the staff for fund monitoring, particularly in times of market stress. This will also triple the frequency that data is reported to the Commission in a given year, as well as ensure that the Commission has more current information, which should in turn enhance the ability of staff to perform analyses of funds in the course of monitoring for industry trends, or identifying issues for examination or inquiry.

Notwithstanding data security concerns, which are discussed further below, commenters generally supported the proposed requirement for monthly reporting.[455] However, some commenters requested that we extend the monthly reporting deadline from 30 days to a longer period, such as 45 or 60 days.[456] Commenters noted that the data required by Form N-PORT resides on multiple platforms, including with third-party service providers, and that the time it will take to compile data, verify it, and convert it to an XML filing format is significant.[457] Additionally, one commenter stated that funds that have high volumes of as-of trades, such as

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sensitive fund data before requiring monthly disclosures of fund holdings); MFS Comment Letter (same); Oppenheimer Comment Letter (data security concerns and burden of monthly filings); Carol Singer Comment Letter.

455 Vanguard Comment Letter ("We generally support filing the new Form N-PORT on a monthly basis with a 30-day lag."); Morningstar Comment Letter; Franco Comment Letter.

456 *See, e.g.*, Vanguard Comment Letter (45 days after month end); MFS Comment Letter (same); ICI Comment Letter (same); T. Rowe Price Comment Letter (same); BlackRock Comment Letter (same); SIFMA Comment Letter I (45-60 day reporting window); SIFMA Comment Letter II (same); Dreyfus Comment Letter (45-60 days after month-end and move to bi-monthly or quarterly reporting); CRMC Comment Letter (60 days after close of month); Pioneer Comment Letter (same); Invesco Comment Letter (same); Dechert Comment Letter (longer period, generally); *but see* State Street Comment Letter (Supporting 30 day deadline, but requesting an additional 15 days for the first-year of reporting).

457 *See, e.g.*, Vanguard Comment Letter; MFS Comment Letter.

funds that invest heavily in bonds and derivatives, could take longer to complete their month-end reconciliations.[458] Finally, the same commenter noted that retrieving information from multiple portfolio managers of sub-advised funds could also delay the process of month-end reconciliations.[459] Other commenters requested that we revise the filing periods for closed-end funds because closed-end funds may not have approved NAVs for 45-days or longer following month-end.[460]

We are requiring that funds file reports on Form N-PORT within 30 days of month-end. Based on staff experience with funds and fund filings, we believe that 30 days is sufficient time to report this information. Separately, we believe that requiring funds to file reports more than 30 days after month end will result in less timely data being submitted to the Commission, which will reduce the utility of portfolio information to the Commission. Therefore, we believe a 30-day filing period strikes the proper balance even though we recognize that preparing reports on Form N-PORT will initially require a significant effort by funds.[461] Moreover, as one commenter noted while advocating for bi-monthly or quarterly reporting, lag times of more than 30 days would make monthly reporting impractical, as reports would overlap with preparation

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458 *See* State Street Comment Letter. The same commenter also noted that funds that have high volumes of over-the-counter derivatives trading would need more time to file reports on Form N-PORT because it would take the funds time to collect all of the fully executed derivatives contracts from counterparties before reporting at month-end.

459 *See id.*

460 *See* Comment Letter of UMB Fund Services, Inc. (Aug. 14, 2015); Carol Singer Comment Letter. Based upon staff experience, it is our understanding that most closed-end funds strike their NAV on at-least a monthly basis. Those that do not can do so, for Form N-PORT reporting purposes, by using the internal methodologies consistent with how they report internally and to current and prospective investors. *See* General Instruction 0 of Form N-PORT.

461 *See infra* section III.B.3.

time.[462] We also note that several commenters also noted that reporting on the same basis the fund uses to calculate NAV (which is generally on a T+1 basis), which the Form, as adopted, explicitly requires, will take less time relative to reporting on a T+0 basis, which is used for financial reporting.[463] For each of these reasons, we are adopting, as proposed, our requirement for reports on Form N-PORT to be filed with the Commission within 30 days of month-end.[464]

Several commenters discussed the need for appropriate data security practices for the data on Form N-PORT that will be kept nonpublic.[465] In many cases, these commenters stated that these data items could be competitively sensitive and that a breach could result in harm to the reporting funds. Some commenters also highlighted the need for appropriate data security safeguards should the Commission determine in the future to share any of the nonpublic information with one or more other regulatory agencies.[466] Some of these commenters believed that, before requiring nonpublic reports on Form N-PORT, the Commission should complete an

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[462] Dreyfus Comment Letter (advocating for bi-monthly or quarterly reporting, with 45-60 days to file reports on Form N-PORT).

[463] *See* Schwab Comment Letter (reporting that converting from T+1 to T+0 accounting would add approximately 6-10 days to the process of compiling data for Form N-PORT). Commenters acknowledged that reporting holdings on a T+1 basis would save time and compiling data for month-end reporting. Some commenters stated that 45-days would be needed to file reports on Form N-PORT on a T+0 basis, however they suggested that 30 days could be sufficient with T+1 reporting. *See* Schwab Comment letter (urging the use of T+1 accounting or "alternatively" recommending a minimum of 45 days); Wells Fargo Comment Letter (recommending a 45 day reporting period if T+0 reporting is required); Others explicitly recommended a 45-day filing period even if we allow filing on T+1 basis. *See* ICI Comment Letter; Oppenheimer Comment Letter.

[464] *See* General Instruction A of proposed Form N-PORT.

[465] *See* CRMC Comment Letter; Dodge & Cox Comment Letter (recommending that the reporting requirement be suspended in the event of a data security breach); IDC Comment Letter; ICI Comment Letter; MFS Comment Letter; Comment Letter of Mutual Fund Directors Forum (Aug. 11, 2015) ("Mutual Fund Directors Forum Comment Letter") (recommending that the Commission implement data security recommendations of the Government Accountability Office); Oppenheimer Comment Letter; SIFMA Comment Letter II; Simpson Thacher Comment Letter; State Street Comment Letter; Vanguard Comment Letter (recommending that the compliance period be extended to allow more time for the Commission to assess the data security of its systems).

[466] *See* CRMC Comment Letter; ICI Comment Letter.

independent, third-party review and verification of its data security practices and recommended that the Commission revisit its practices on an ongoing basis.[467] Some commenters suggested that the Commission provide additional information about its data security controls or its protocols for responding to an identified breach.[468] As discussed above, several commenters requested that we require quarterly, rather than monthly, reports on Form N-PORT, citing to data security concerns.[469]

The Commission recognizes the importance of sound data security practices and protocols for nonpublic information, including information that may be competitively sensitive. The Commission has substantial experience with the storage and use of nonpublic information reported on Form PF, delayed public disclosure of information on Form N-MFP (although the Commission no longer delays public disclosure of reports on Form N-MFP), as well as other nonpublic information that the Commission handles in its course of business. Commission staff is carefully evaluating the data security protocols that will apply to nonpublic data reported on Form N-PORT in light of the specific recommendations and concerns raised by commenters. Drawing on its experience, the staff is working to design controls and systems for the use and handling of Form N-PORT data in a manner that reflects the sensitivity of the data and is

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[467] *See* IDC Comment Letter (noting recent report by the Government Accountability Office); ICI Comment Letter (noting recent reports by the Government Accountability Office and the Commission's Office of Inspector General and recommending specific data security practices); MFS Comment Letter; Oppenheimer Comment Letter (noting recent reports by the Government Accountability Office and the Commission's Office of Inspector General).

[468] *See* ICI Comment Letter (recommending that the Commission notify affected funds in the event of a breach); MFS Comment Letter; SIFMA Comment Letter II; Simpson Thacher Comment Letter (recommending that the Commission issue a release addressing data security and accepting public comments before adopting new reporting requirements).

[469] *See supra* footnote 454 and accompanying text.

consistent with the maintenance of its confidentiality.[470] In advance of the compliance date, we expect that the staff will have reviewed the controls and systems in place for the use and handling of nonpublic information reported on Form N-PORT.

4. Disclosure of Information Reported on Form N-PORT

As discussed above, we proposed that the information reported on Form N-PORT for the third month of each fund's fiscal quarter be made publicly available 60 days after the end of the Fund's fiscal quarter.[471] We also proposed that the information reported on Form N-PORT for the first and second months of each fund's fiscal quarter, and any information reported in Part D of the Form, not be made public.[472]

Comments were mixed on this aspect of the proposal. We received a number of comments objecting to the public disclosure of any information on Form N-PORT on a quarterly basis.[473] Others generally supported, or did not oppose, quarterly public disclosure of Form N-PORT, but requested that certain information items be kept nonpublic.[474] In discussing these

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[470] *See* Form PF Adopting Release, *supra* footnote 80. We recognize that there are differences between the N-PORT reporting requirements and the Form PF reporting requirements, such as frequency, granularity, and registration status, and our recognition of these differences guides our evaluation of appropriate measures for preservation of data security for reported information.

[471] *See* General Instruction F of proposed Form N-PORT.

[472] *Id*.

[473] *See* SIFMA Comment Letter II ("The fund's quarterly data could be mined for trading patterns in order to replicate the portfolio's underlying strategy (e.g., the underlying analytics or equations behind a quantitative strategy.) This could lead to an attempt to front-run a fund."); *see also* SIFMA Comment Letter I; Schwab Comment Letter; Fidelity Comment Letter; T. Rowe Price Comment Letter.

[474] *See, e.g.*, ICI Comment Letter (portfolio risk metrics, delta, liquidity determinations, country of risk and derivatives financing rates should be kept non-public.); BlackRock Comment Letter (risk metrics); Invesco Comment Letter (portfolio level risk metrics, derivatives information, illiquidity determinations, and securities lending information should remain non-public); Oppenheimer Comment Letter (risk metrics, illiquidity determinations, country of risk determinations, derivatives payment terms (including financing rates), and securities lending fees and revenue sharing splits should be kept non-public) SIFMA Comment Letter II (risk metrics; illiquidity determinations;

alternatives, several commenters noted similarity to the data that the Commission collects on a nonpublic basis from private funds on Form PF.[475] Finally, some commenters called for more frequent public disclosure of the information on Form N-PORT, as the information could assist intermediaries and market professionals with evaluating whether funds are consistently executing their stated portfolio strategies.[476] These comments are addressed below.

Most commenters who addressed this issue did not support the public reporting of all Form N-PORT filings (*i.e.*, public disclosure on a monthly basis).[477] Such commenters generally believed that disclosure of all month-end Form N-PORT filings could increase the risk of front-running or free-riding, ultimately harming investors.[478] These commenters noted that more frequent disclosures would provide non-investors with free access to the research and analysis that investors pay advisers for through management and other fees.

As discussed further below, commenters that believed that Form N-PORT should remain nonpublic, or that believed certain information items should remain nonpublic, raised two concerns. First, some commenters argued that some of the information on Form N-PORT could potentially be proprietary, and lead to harm to the fund and its investors if publicly released. For example, for derivatives, payment terms, including financing rates, are negotiated rates; as a result, commenters expressed concern that public disclosure may harm a fund's ability to

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country of risk; and derivative financing rates, custom baskets); BlackRock Derivatives Comment Letter (derivatives positions).

[475] *See, e.g.*, SIFMA Comment Letter I; ICI Comment Letter; BlackRock Comment Letter; *see also* AIMA Comment Letter; Confluence Comment Letter.

[476] *See* Franco Comment Letter (requesting that all portfolio filings be made public 180 to 360 days after filing); Morningstar Comment Letter (requesting public disclosure on a monthly basis reasoning that many fund complexes currently make portfolio holdings information public on at least a monthly basis).

[477] *See, e.g.*, Dodge & Cox Comment Letter; ICI Comment Letter; MFS Comment Letter.

[478] *See id.*

negotiate favorable terms on behalf of its investors.[479] Similarly commenters argued that disclosing detailed information on the components of nonpublic indexes could violate the intellectual property rights that index providers might assert and, as a result, harm investors who may lose the benefit of index products that would no longer be available to them, should an index provider choose to no longer do business with a fund, rather than have its index's components made publicly available.

Second, some commenters noted that if certain information items, such as the proposed risk metrics, monthly return information, and country of risk are publicly disclosed, it could potentially confuse and mislead investors.[480] For example, some commenters argued that risk metrics are calculated using inputs and assumptions that could make them subjective and investors could mistakenly seek to compare risk metrics across funds or believe that risk metric data represents a fund's overall risk.[481] Similarly, monthly return data (including monthly returns attributable to derivatives) could cause investors to mistakenly focus on short-term results or otherwise confuse investors.[482] Likewise, commenters noted that the country of risk determination is subjective and open to different determinations among funds and advisers which may lead to investor confusion.[483] Finally, some commenters that argued Form N-PORT should

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479 *See, e.g.*, Oppenheimer Comment Letter; SIFMA Comment Letter I.

480 *See, e.g.*, SIFMA Comment Letter I; SIFMA Comment Letter II; Fidelity Comment Letter; MFS Comment Letter; ICI Comment Letter.

481 *See, e.g.*, ICI Comment Letter; Pioneer Comment Letter; SIFMA Comment Letter II.

482 *See* CRMC Comment Letter; SIFMA Comment Letter I.

483 *See, e.g.*, MFS Comment Letter; Pioneer Comment Letter; Schwab Comment Letter; Oppenheimer Comment Letter.

remain completely nonpublic questioned the utility of the information in Form N-PORT for investors.[484]

Subject to discrete information items discussed further below, the Commission is adopting as proposed the public disclosure of funds' quarter-end Form N-PORT with a 60-day delay from the reporting period. We decline to adopt the suggestion of some commenters that all reports filed on Form N-PORT remain nonpublic. The Commission believes that the public reporting requirements of Form N-PORT generally are appropriate given the filer's status as a registered investment company with the Commission, which is based on the tenets of disclosure and transparency to fund investors, and not as a private fund.[485] Moreover, as we discuss below, funds currently publicly report holdings information on a quarterly basis through Forms N-CSR and N-Q. We also note that Section 45(a) of the Investment Company Act requires information in reports filed with the Commission pursuant to the Investment Company Act be made public unless we find that public disclosure is neither necessary nor appropriate in the public interest or for the protection of investors.[486] For the reasons discussed above, we continue to believe that public disclosure of information about most of the items required on Form N-PORT is appropriate in the public interest, as well as for the protection of investors. 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

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484 *See, e.g.*, SIFMA Comment Letter I; Schwab Comment Letter; Fidelity Comment Letter.

485 *See, e.g.*, section 45(a) of the Investment Company Act (requiring information in reports filed with the Commission pursuant to the Investment Company Act be made public unless we find that public disclosure is neither necessary nor appropriate in the public interest or for the protection of investors). Regarding those commenters that compared the information that Form N-PORT requires to that in Form PF, we note that Form PF is filed by private funds pursuant to Advisers Act section 204(b), making such data subject to the confidentiality protections applicable to data required to be filed under that section.

486 *See id.*

analysts, and economic research firms, could use the information reported on Form N-PORT to evaluate fund portfolios and assess the potential for risks and returns of a particular fund.[487] Accordingly, whether directly or through third parties, we believe that the periodic public disclosure of the information to be reported on Form N-PORT could benefit fund investors. Moreover, we generally believe that investors should have access to portfolio information in a structured data format, and be given the opportunity to make their own decisions regarding the usefulness of the data. We have, however, made several modifications to our proposals, discussed above, in response to commenters.

We believe that, on balance, investors would benefit from the information that will be reported on Form N-PORT. Likewise, the Commission continues to believe that public availability of information, including the types of information that will be collected on Form N-PORT that may not currently be reported or disclosed by funds, can benefit investors and other potential users by assisting them in making more informed investment decisions.

We continue to recognize, however, that more frequent portfolio disclosure than is currently required 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."[488] Similarly, the Commission is sensitive to concerns that more frequent portfolio disclosure may facilitate the ability of non-investors to "free ride" on a mutual fund's investment research, by allowing those investors to reverse

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[487] *See* Russ Wermers Comment Letter; *see generally* Franco Comment Letter ("... the Commission [should] adopt a more expansive view of its disclosure rulemaking mandate and more specifically a view that considers layered forms of its disclosure (and disclosure documents) that meet the needs of different constituent end-users of disclosure.").

[488] *See, e.g.*, Quarterly Portfolio Holdings Adopting Release, *supra* footnote 421, at n. 128 and accompanying text.

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.[489] Both front-running and copycatting can adversely affect funds and their shareholders.[490] We raised such concerns in the Proposing Release, and, many commenters that discussed public disclosure of portfolio information agreed with these concerns.[491] However, one commenter argued that such effects were unlikely.[492]

We recognize that some free-riding and front running activity can occur even with quarterly disclosure, with the potential for investor harm.[493] Conversely, however, and as we noted in the Proposing Release, we previously received petitions 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 more information about how a fund is complying with its stated investment objective.[494] The Commission cited many of these benefits when it adopted Form N-Q, and

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489 *See, e.g., id.* at n. 129 and accompanying text.

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

491 See, e.g., ICI Comment Letter (noting the risk of predatory trading with an increase in frequency of public disclosure of fund portfolio holdings); SIFMA Comment Letter I (same); Simpson Thacher Comment Letter (same); Vanguard Comment Letter (same); *see also* Proposing Release, *supra* footnote 7, at 33613–33614.

492 *See* Morningstar Comment Letter (arguing that reverse-engineering concerns are largely unfounded).

493 *See infra* section 0

494 *See* Quarterly Portfolio Holdings Adopting Release, *supra* footnote 421, 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

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.[495]

We have considered both 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 will be required on Form N-PORT, as well as the potential costs associated with making that information available to the public, which could be ultimately borne by investors.[496] Accordingly, in an attempt to minimize these potential costs and competitive harms from front-running and reverse engineering, we are requiring public disclosure of fund reports on Form N-PORT once each quarter, rather than monthly. This maintains the status quo regarding the frequency and timing of public portfolio disclosure, while providing investors and other potential users with the benefit of having more detailed portfolio information in a structured format.

As commenters pointed out, we recognize that we are requiring additional data points in Form N-PORT, as well as requiring the data to be structured, which represents a change regarding the scope of information available to the public. As discussed above, however, we believe that generally this additional information can benefit investors. Additionally, while we

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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).

495 *See id.*

496 In doing so, we also considered the various comment letters that we received regarding our proposal to make the third month's report public, and the costs and benefits of doing so. *See, e.g.*, SIFMA Comment Letter II; SIFMA Comment Letter I; Schwab Comment Letter; Fidelity Comment Letter; T. Rowe Price Comment Letter; *see also* Franco Comment Letter; Morningstar Comment Letter.

recognize that an increase in the amount of publicly available information has the potential to facilitate predatory trading, as discussed in section III.B.3 below, we do not believe that quarterly public disclosure with a 60-day lag will have a significant, additional competitive impact. We discuss commenters' concerns about specific data items below.

Funds are currently required to disclose their portfolio investments quarterly, via public filings with the Commission and semi-annual reports distributed to shareholders, with the exception of "miscellaneous securities" which funds are not required to disclose pursuant to Regulation S-X. Consequently, the Commission will not make public the information reported for the first and second months of each fund's fiscal quarter on Form N-PORT, nor any "miscellaneous securities" reported for the third month of each fund's fiscal quarter.[497] Only information reported for the third month of each fund's fiscal quarter on Form N-PORT will be made publicly available, and such information will not be made public until 60 days after the end of the third month of the fund's fiscal quarter.[498]

We continue to believe that maintaining the status quo with regard to the frequency and the time lag of portfolio reporting will 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

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[497] *See* General Instruction 0 of Form N-PORT.

[498] We are maintaining 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 will be concurrent with the public portfolio disclosures reported on a semi-annual fiscal year basis on Form N-CSR. We believe that such overlap will minimize the risks of predatory trading, because otherwise funds with fiscal year-ends that fall other than on a calendar quarter- or year-end will 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.

more timely public disclosure would be beneficial to investors in funds.[499] For the reasons discussed above, we find that it is neither necessary nor appropriate in the public interest or for the protection of investors to make information reported for the first and second months of each fund's fiscal quarter on Form N-PORT or "miscellaneous securities" reported for the third month of each fund's fiscal quarter publicly available.[500]

As noted above, some commenters, while generally supporting quarterly disclosure on Form N-PORT, believed that certain information items should remain nonpublic. Some commenters believed that some of the information in Form N-PORT could contain potentially proprietary information, and lead to harm to the fund and its investors if publicly released. For example, commenters expressed concern that public disclosure of negotiated payment terms for derivatives, such as financing rates, could harm a fund's ability to negotiate favorable terms.[501] However, as we discussed above in section II.A.2.g.iv, we designed Form N-PORT to provide information sufficient to allow our staff, investors, and other potential users to better understand the investments held in a fund's portfolio. This necessarily involves disclosing the payment terms for derivative instruments a fund invests in. Without such information, valuing the risks and rewards of such an investment could be difficult for investors and other potential users. We

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499 *See also supra* footnote 360 and accompanying text (non-public indexes and custom baskets); *supra* footnotes 395–399 and accompanying text (derivatives financing rates); *supra* footnote 203 and accompanying text (securities lending counterparties); *supra* footnote 281 and accompanying text (repurchase and reverse repurchase agreements).

500 *See* section 45(a) of the Investment Company Act. Form N-PORT has also been modified from the proposal to clarify that the Commission 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 that that is identifiable to any particular fund or adviser or any information reported with regards to country of risk and economic exposure, delta, or miscellaneous securities, or explanatory notes related to any of those topics that is identifiable to any particular fund or adviser. *See* General Instruction F of Form N-PORT. However, the SEC may use information reported on Form N-PORT in its regulatory programs, including examinations, investigations, and enforcement actions.

501 *See, e.g.*, Oppenheimer Comment Letter; SIFMA Comment Letter I.

therefore do not believe that it would be necessary or appropriate in the public interest for the benefit of investors to mask such information for all reports on Form N-PORT.

Similarly, as discussed above, commenters noted that disclosing detailed information on the components of nonpublic indexes could violate the intellectual property rights that index providers might assert. This could result in harm to investors who may lose the benefit of index products that would no longer be available to them, should an index provider choose to no longer do business with a fund, rather than have its index's components made public and open the index to front-running and reverse engineering.[502] As we discussed more fully above in section II.A.2.g.iv, we continue to believe that it is important for the Commission, investors, and other potential users to have transparency into a fund's exposures to assets, regardless of whether the fund directly holds investments in those assets or chooses to create those exposures through a derivatives contract.[503]

Commenters also objected to the public disclosure of securities lending information, such as the identity of borrowers and the aggregate value of securities on loan to a counterparty, as such disclosures could cause securities lending counterparties, in an attempt to keep their securities lending exposures private, to be less willing to borrow securities from funds.[504] However, as we stated in section II.A.2.g.v, above, public disclosure of this information will improve the ability of Commission staff, as well as investors, brokers, dealers, and other market participants to better understand the collateral received by funds and associated potential liquidity and market risks, as well as identify those instruments that one or more funds might

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[502] *See supra* section 0.

[503] *See id.*

[504] *See, e.g.*, SIFMA Comment Letter I; BlackRock Comment Letter; SIFMA Comment Letter II; *see also supra* section 0.

have to sell in the event of default by borrowers. For similar reasons, one commenter requested that the identity of counterparties to repurchase and reverse repurchase agreements be kept nonpublic.[505] However, as indicated above in section II.A.2.g.iii, such information is routinely publicly disclosed in other contexts, and we are unaware of any evidence that such disclosures have resulted in competitive disadvantages to the entities required to make such disclosures.

As we discussed in section II.A.2.g.ii, one commenter noted that public disclosure on default, arrears, or deferred coupon payments raises competitive concerns when a debt security relates to an issuer that is a private company, as private borrowers may avoid registered funds in order to avoid public disclosure if the company becomes distressed. However, as we noted in that section, we believe that it is important that a fund's investors have access to this information so that they can make fully informed decisions regarding their investment.

Finally, some commenters believed that certain items could be misinterpreted by investors, resulting in investors being misled or confused. Specifically, some commenters believed that monthly return data (including monthly returns attributable to derivatives) could cause investors to mistakenly focus on short-term results or otherwise confuse investors.[506] We disagree. As discussed in section II.A.2.e above, we agree with another commenter that believed such disclosures could improve information to investors, and noted that many funds already disclose monthly returns.[507]

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505 *See* SIFMA Comment Letter I.

506 *See* CRMC Comment Letter; SIFMA Comment Letter I.

507 *See* Morningstar Comment Letter.

Several commenters also believed that investors would be unduly confused by the disclosure of the portfolio-level and position-level risk metrics.[508] We decline to make the portfolio-level risk metrics (DV01/DV100 and SDV01/SDV100) nonpublic but have determined to keep the position-level risk metrics (delta) nonpublic for all N-PORT filings.[509] We agree with commenters that the calculation of delta can require a number of inputs and assumptions.[510] As a result, reported deltas for the same or similar investment products could vary because of complex differences in methodologies and assumptions that are not reported on the form nor easily explained to investors. Moreover, the disclosure of delta could, for some investors, imply a false sense of precision about how a particular investment's valuation will change in volatile market conditions. However, we continue to believe that such information is useful for the Commission's monitoring purposes, as the Commission has the ability to contact funds directly, when necessary, to better understand a fund's methodologies and assumptions. Thus, upon consideration of the comments, we find that it is neither necessary nor appropriate in the public interest or for the protection of investors to make delta publicly available at this time.[511] We recognize that, like delta, inputs and assumptions are used for calculating DV01, DV100, and SDV01. We believe, however, that the fact that these metrics will not be reported at the position-level sufficiently mitigates the potential risks discussed above. Because these measures will not be reported by position-level, investors and other potential users will not be comparing different risk metrics for the same investment in different funds. Similarly, we believe that portfolio level

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508 *See, e.g.*, SIFMA Comment Letter I; Dechert Comment Letter; Invesco Comment Letter.

509 *See, e.g.*, ICI Comment Letter.

510 *See id.*

511 *See* section 45(a) of the Investment Company Act which requires information in investment company forms to be made available to the public, unless we find that public disclosure is neither necessary nor appropriate in the public interest or for the protection of investors.

risk metrics are less likely to imply a false sense of precision for some investors because such measures are, by design, the aggregation of each investment's assumptions and projections.[512]

For similar reasons, we intend to keep information reported for country of risk and economic exposure nonpublic.[513] We are persuaded by commenters that this information is evaluated by funds using multiple factors, making it subjective, and acknowledge that, while useful to the Commission in terms of understanding the country-specific risks, may convey a false level of precision.[514] We also acknowledge arguments by commenters that disclosure of such information could stifle divergences in determinations and incentivize funds to seek homogenized determinations from third party firms, potentially rendering the information less useful to Commission staff than if it were not publicly disclosed.[515] For these reasons, we find that it is neither necessary nor appropriate in the public interest or for the protection of investors to make information reported for country of risk and economic exposure publicly available at this time.[516]

Lastly, as discussed above, we recognize that explanatory notes related to nonpublic items should be nonpublic as well.[517] As a result, we find that it is neither necessary nor appropriate in the public interest or for the protection of investors to make explanatory notes

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[512] *See also supra* footnotes 173–178 and accompanying text.

[513] *See supra* footnote 287 and accompanying and following text.

[514] *See, e.g.*, ICI Comment Letter; Pioneer Comment Letter; Schwab Comment Letter; MFS Comment Letter; SIFMA Comment Letter II; Morningstar Comment Letter (commenting on the usefulness of this information to investors, but not offering an opinion as to whether this information should be publicly disclosed).

[515] *See, e.g.*, ICI Comment Letter; Oppenheimer Comment Letter.

[516] *See* section 45(a) of the Investment Company Act. We note that we are, for similar reasons, determining not to require disclosure of a fund's determination of the liquidity classification assigned to each investment as required to be reported on Form N-PORT. Liquidity Adopting Release, *supra* footnote 9.

[517] *See supra* footnote 435 and accompanying text.

reported for delta or country of risk and economic exposure publicly available at this time.[518] However, explanatory notes related to other items on Form N-PORT will be publicly available.

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

1. Rescission of Form N-Q

Along with our adoption of new Form N-PORT, we are also rescinding Form N-Q, as we proposed. 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 Form N-PORT will include the portfolio holdings information contained in reports on Form N-Q, we believe that Form N-PORT will 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, and as proposed, we are requiring that, for reports on Form N-PORT for the first and third quarters of a fund's fiscal year, the fund will 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].

We requested comments on our proposed rescission of Form N-Q. One commenter supported our proposed rescission of Form N-Q.[519] Other commenters recommended

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[518] *See* section 45(a) of the Investment Company Act.

maintaining Form N-Q, noting that Form N-PORT might not serve the interests of investors, while Form N-Q is an established channel through which funds currently provide pertinent information to shareholders.[520] We understand these concerns, but as noted above because the data reported on Form N-PORT will include the portfolio holdings information that would be contained in reports on Form N-Q, we believe that Form N-PORT will render reports on Form N-Q unnecessarily duplicative. We are also concerned about the possibility of investor confusion that may arise in the event of simultaneous public disclosure of portfolio reporting information for the same reporting periods on Form N-PORT as well as on Form N-Q. For these reasons, we are rescinding Form N-Q.

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 currently 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.[521] Rescission of Form N-Q will eliminate certifications as to the accuracy of the portfolio schedules reported for the first and third fiscal quarters.

Under today's amendments, and as we proposed, the certifications as to the accuracy of the portfolio schedules reported for the second and fourth fiscal quarters on Form N-CSR will

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519 *See* Schnase Comment Letter.

520 *See* Schwab Comment Letter; Fidelity Comment Letter; SIFMA Comment Letter I.

521 *See* Item 3 of Form N-Q (certification requirement); Form N-Q Adopting Release, *supra* footnote 421; 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).

remain. However, and as we proposed, we are amending 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.[522] 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 will cover the first and second fiscal quarters and third and fourth fiscal quarters, respectively, will fill the gap in certification coverage regarding the registrant's internal control over financial reporting that will 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. However, we expect such effects, if any, to be minimal because certifying officers will continue to certify portfolio holdings for the fund's second and fourth fiscal quarters and will further provide semi-annual certifications concerning disclosure controls and procedures and internal control over financial reporting that would cover the entire year.

Commenters generally agreed with our proposed approach, although several commenters suggested maintaining Form N-Q on the grounds that Form N-PORT may not serve the interests

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[522] Amended Item 11(b) of Form N-CSR; amended paragraph 4(d) of certification exhibit of Item 12(a)(2) of Form N-CSR.

of investors or because of their assertions that reports on Form N-PORT should be nonpublic.[523] For the reasons discussed above, and since we have determined not to make all filings of N-PORT nonpublic, we are rescinding Form N-Q and amending the certification requirements in Form N-CSR, as proposed.

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, we are adopting amendments to Regulation S-X, which prescribes the form and content of financial statements required in registration statements and shareholder reports.[524] As discussed above, many of the amendments to Regulation S-X, particularly the amendments to the disclosures concerning derivative contracts, are similar to the requirements concerning disclosures of derivatives that will be required on reports on Form N-PORT.[525] The amendments to Regulation S-X will, among other things, require similar disclosures in a fund's financial statements in order to provide investors, particularly individual investors, with clear and consistently presented disclosures across funds concerning fund investments in derivatives in an unstructured format.

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[523] *See, e.g.,* ICI Comment Letter (agreeing with the proposed approach); State Street Comment Letter (same). *See also* Schwab Comment Letter (stating that Form N-PORT might not serve the interests of investors); Fidelity Comment Letter (same); SIFMA Comment Letter I (stating that reports on Form N-PORT should be nonpublic).

[524] *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 amendments to Regulation S-X apply to both registered investment companies and BDCs. *See infra* section 0. Therefore, throughout this section, when discussing fund reporting requirements in the context of our amendments to Regulation S-X, we are also including changes to the reporting requirements for BDCs.

[525] *See supra* section 0.

As outlined below, we are adopting amendments to Articles 6 and 12 of Regulation S-X that will: (1) require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts,[526] and additional disclosures regarding fund holdings of written and purchased option contracts; (2) update the disclosures for other investments and investments in and advances to affiliates, 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 will require prominent placement of details regarding investments in derivatives in a fund's schedule of investments, rather than allowing such schedules to be disclosed in the notes to the financial statements.

The comments that we received relating to our proposal to amend Regulation S-X were generally supportive of our efforts to improve the information that funds report to shareholders and the Commission.[527] However, commenters did provide comments on many aspects of our proposal, which we discuss below.

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[526] We recognize that under the federal securities laws, certain derivatives fall under the definition of securities, notwithstanding, for purposes of our amendments 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.*, rule 12-13C of Regulation S-X (Open swap contracts).

[527] *See, e.g.*, Comment Letter of Ernst & Young LLP (Aug. 10, 2015) ("EY Comment Letter") ("We agree that many of these amendments would improve the transparency and comparability of investment company financial statements for their intended users."); Deloitte Comment Letter ("We believe that the proposed rule related to the Commission's modernization project is consistent with the SEC's stated objective of improving the type and format of information regarding fund activities that investment companies provide to the Commission and investors...."); SIFMA Comment Letter I ("We support the Commission's initiative to enhance and standardize the disclosure of derivatives and other portfolio investments in fund financial statements and believe that most of the proposed amendments to Regulation S-X will achieve that goal."); *see also* AICPA Comment Letter. One commenter recommended that the Commission dispense with any requirement for position-level reporting of information regarding derivatives, as this information could confuse or mislead investors and could contain confidential information relating to a fund's investment strategy. Simpson Thacher

The rules that we are adopting will renumber the current schedules in Article 12 of Regulation S-X and break out the reporting of derivatives currently on Schedule 12-13 into separate schedules.[528] These changes are summarized in Figure 1, below.

CHANGES TO ARTICLE 12 OF REGULATION S-X

CURRENT RULES	NEW 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)*
	12-13A (Open futures contracts)*
	12-13B (Open forward foreign currency contracts)*
12-13 (Investments other than securities)	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, and commenters agreed, that these amendments will assist comparability among funds, and increase transparency for investors regarding a fund's use of derivatives.[529] We have endeavored to mitigate burdens on the industry by requiring similar disclosures both on

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Comment Letter. However, Article 12 of Regulation S-X already requires all position-level derivatives to be reported. Moreover, GAAP already requires a minimum level of position-level reporting of investments that does not distinguish between derivatives and securities. *See, e.g.*, FASB ASC 946-210-50-1 (Financial Services–Investment Companies-Disclosure—General-Schedule of Investments-Investment Companies Other than Nonregistered investments Partnerships).

[528] Throughout this release when we refer to a rule as it exists prior to any amendments we are making today, it is described as a "current rule," while references to a rule as amended (or an existing rule that is not being amended today) are described as a "rule" or "new rule."

[529] *See, e.g.*, EY Comment Letter; SIFMA Comment Letter I.

Form N-PORT and in a fund's financial statements.[530] As we discussed in the Proposing Release, we continue to believe that these amendments are generally consistent with how many funds are currently reporting investments (including derivatives). [531]

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.[532] We received comment letters on the concept release from a variety of stakeholders. Several commenters noted that holdings of derivative investments are not currently reported by funds in a consistent manner.[533] 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.[534] Another commenter specifically requested that

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530 *See generally supra* section 0.

531 *See* Proposing Release, *supra* footnote 7, at 33616.

532 Derivatives Concept Release, *supra* footnote 38.

533 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 ("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 to Derivatives Concept Release (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.").

534 *See* Morningstar Derivatives Concept Release Comment Letter ("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 (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 ("Counterparty data is also often not available."); Comment Letter of The Systematic Risk Council Comment to FSOC Notice (Mar. 25, 2015) (discussing the need to have information about investment vehicles that hold bank liabilities).

we revise Regulation S-X in order to keep "financial reporting current with developments in the financial markets."[535]

We are adopting rules that will standardize the reporting of certain derivative investments for fund financial statements. While the current 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. Current 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 current rules 12-12, 12-12A, 12-12B, and 12-14.[536] Thus, currently, 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 amending Regulation S-X by adopting new schedules for open futures contracts, open forward foreign currency contracts, and open swap contracts. We received several comments generally supporting the Commission's proposals to provide more information about derivatives.[537] Other commenters objected to the public reporting of position level derivatives reporting arguing instead that we should focus on portfolio-level metrics analysis as it would more accurately reflect an investment company's overall use of, and, more

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

[536] The current 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* current rule 12-13 of Regulation S-X.

[537] *See, e.g.*, CFA Comment Letter; Wells Fargo Comment Letter.

meaningfully reflect its net exposure to derivatives.[538] Funds are currently required to report their position-level derivatives in accordance with Article 12 of Regulation S-X.[539] We believe that it is important for funds to continue to report position-level data for all investments in order to allow investors and other interested parties to fully understand their fund's holdings.[540]

We are also modifying the current disclosure requirements for purchased and written option contracts. Finally, we are adopting certain instructions regarding the presentation of derivatives contracts that are generally consistent with instructions that are currently included, or that we are adding, in either rule 12-12 (Investments in securities of unaffiliated issuers) or current rule 12-13 (Investments other than securities).[541]

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

We are amending the current disclosure of written option contracts substantially as proposed.[542] We proposed to add 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,[543] and the contract's notional amount, which we are adopting as proposed.[544] Thus, for rule 12-13, for each open written options contract, funds will be

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538 *See, e.g.*, Simpson Thacher Comment Letter.

539 *See supra* footnote 536 and accompanying text.

540 *See id.*

541 *See, e.g.*, rule 12-12, n. 2 of Regulation S-X (instructions for categorizing investments).

542 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* current rule 12-12B of Regulation S-X [17 CFR 210.12-12B].

543 *See infra* footnote 554-555 and accompanying text.

544 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.

required to disclose: (1) description; (2) counterparty; (3) number of contracts; (4) notional amount; (5) exercise price; (6) expiration date; and (7) value.[545]

We received several comments relating to the proposed requirement to disclose notional amounts for open options contracts. Some commenters recommended that the Commission either eliminate the proposed notional amount column for certain options contracts as they believed it was unnecessary because, unlike the notional amount of swaps and futures, which communicates economic exposure, the notional amount of an option, without a delta adjustment, may not represent an equivalent position in the underlying reference asset[546] or, in the alternative, provide a clear definition of notional amount.[547] As we previously stated in the Derivatives Proposing Release, we believe that, although derivatives vary widely in terms of structure, asset class, risk and potential uses, for most types of derivatives the notional amount generally serves as an important data point for investors that seek to determine a fund's economic exposure to an underlying reference asset or metric.[548] We do not believe that it is necessary to provide funds with a prescriptive formula for calculating notional amount because we understand funds today calculate their derivatives' notional amounts for risk management,

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

[546] *See* ICI Comment Letter (recommending the elimination of notional amount for written options because the exercise price component of an option contract makes the notional amount less relevant than other derivative instruments, such as swaps and futures); MFS Comment Letter (recommending that the Commission eliminate the proposed notional amount column in the options table).

[547] *See* EY Comment Letter (supporting disclosures of notional amounts for open options contracts and notional and value amounts for open futures contracts, but noting that such requirements should include clear definitions); MFS Comment Letter (suggesting that the Commission either eliminate the notional amount column for open options contracts or, if the requirement is retained, clarify the methodology for calculating the notional amount of an option.); ICI Comment Letter (recommending that the Commission eliminate this requirement, or, should the Commission require notional amount, specify the calculation as: [number of contracts] x [exercise price] x [contract multiplier]).

[548] *See* Derivatives Proposing Release, *supra* footnote 7, at, n. 159 and accompanying text. *See also* Derivatives Concept Release, *supra* footnote 38, at n. 19 and accompanying text.

reporting or other purposes, and that funds would be able to use these calculations for financial statement reporting. Moreover, the Commission has previously discussed different types of derivatives transactions that are commonly used by funds, together with the method by which we understood a fund, for risk management, reporting or other purposes, could calculate a derivatives notional amount.[549] We believe that Regulation S-X will allow a fund to use these calculations methods, as well as other reasonable methods, to determine notional amounts of such derivatives transactions.[550]

We also proposed to add an instruction (proposed instruction 3) to current rule 12-12, which is the schedule by 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.[551] One commenter noted that some options contracts allow for a range of underlying securities to be delivered and requested that funds only be required to identify the security type to be delivered, rather than the full description called for in instruction 3 to rules 12-12 and 12-13.[552] We believe that providing a description of the investment underlying an option is necessary in order to fully understand the risks and rewards of such investment. For example, an options contract could allow for a range of underlying investments to be delivered and at the time the option is exercised, some of the investments could be riskier than others. We are therefore adopting the instruction as proposed.

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, we also proposed

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[549] *See* Derivatives Proposing Release, *supra* footnote 7, at Table 1; *see also id.*

[550] *See id.*

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

[552] *See* AICPA Comment Letter.

requiring that the presentation of that underlying investment must include a description, as required by those provisions.[553] 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). We received no comments on this aspect of the proposal, and we are adopting it as proposed.

In order to assist investors in identifying and monitoring the counterparty risks associated with a fund's investments in derivatives, we proposed to require funds to disclose the counterparty to a derivative.[554] We also acknowledged that counterparty risk is mitigated for exchange-traded instruments and therefore proposed an instruction for options and swaps that funds need not disclose the counterparty for exchange-traded instruments.[555] Commenters agreed, but noted that, like exchange-traded instruments, centrally cleared derivatives also do not bear the same type of risks (such as counterparty risk), as over-the-counter instruments.[556] Based on the comments that we received, we agree that counterparty risk can also be mitigated through central clearance and are therefore changing instruction 4 to rule 12-13 (open options contracts) (and instruction 4 to rule 12-13C (open swaps contracts)) to not require disclosure of the

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553 *See* proposed rules 12-12, n. 3; 12-12B, n. 5; and 12-13, n. 3 of Regulation S-X. One commenter requested clarification whether Regulation S-X would require disclosure of *any* investment with optionality. *See* AICPA Comment Letter. We did not intend to extend this requirement to bonds or other non-derivative instruments that contain optionality features.

554 *See* proposed rule 12-13, Column B.

555 *See* proposed rules 12-13, n. 4 and 12-13C, n. 4 of Regulation S-X.

556 *See* State Street Comment Letter (requesting clarification on whether funds should report counterparty for exchange-traded derivatives); *see also* Morningstar Comment Letter ("The proposal to report counterparties for non-exchange-traded instruments is reasonable. Exposures to counterparties should be presented net of collateral received or margin posted.").

counterparty for both exchange-traded options and swaps and centrally cleared options and swaps.[557]

Another commenter suggested that funds should be required to present counterparty exposures net of collateral received or margin posted.[558] While we agree that receiving collateral and posting margin may mitigate some counterparty risk, in order to simplify the disclosures for investors and limit the burden for funds, we continue to believe that it is appropriate for funds to limit disclosure to the counterparty to the transaction, without the additional burden of providing collateral or margin information.[559]

As required in Form N-PORT,[560] in the case of an option contract with an underlying investment that is an index or basket of investments for which components are publicly available on a website as of the fund's balance sheet date, [561] or if the notional amount of the investment does not exceed one percent of the fund's NAV as of the close of the period, we proposed that the fund provide information sufficient to identify the underlying investment.[562] If the underlying investment 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

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[557] *See* rule 12-13, n. 4 of Regulation S-X; *see also* rule 12-13C, n. 4 of Regulation S-X; *supra* section 0.

[558] *See* Morningstar Comment Letter; *see also* CFA Comment Letter (generally supporting requirements for funds to report information relating to counterparty exposure).

[559] *See* rule 12-13, Column B; *see also* rule 12-13B, Column C; rule 12-13C, Column C.

[560] *See* Item C.11.c.iii of proposed Form N-PORT; *see also supra* section 0.

[561] As proposed, 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.

[562] *See* proposed rule 12-13, n. 3 of Regulation S-X. *See supra* footnotes 360–362 and accompanying text (discussing the rationale for similar proposed requirements in Form N-PORT).

notional amount of the option contract exceeds one percent of the fund's NAV as of the close of the period, as proposed, the fund would list separately each of the investments comprising the index or basket of investments.[563] We continue to 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. The disclosures will provide investors with more transparency into both the terms of the underlying investment and the terms of the option. We also proposed to include a similar instruction for swap contracts.[564]

We received a number of comments on our proposal to publicly disclose the components of an underlying index, both with respect to Form N-PORT (discussed above) and Regulation S-X.[565] While one commenter agreed with our proposal,[566] others requested that we include a higher threshold before requiring disclosure, such as 5 percent.[567] Others agreed with our proposed 1% threshold but stated that reporting should be based on a percentage of net asset value, rather than notional value, as percentage of net asset value is a better indicator of materiality.[568]

As stated in the Proposing Release and in the Form N-PORT discussion above, we continue to believe that it is important for the Commission, investors, and other potential users to

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563 *See id.*

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

565 *See also supra* section 0.

566 *See, e.g.*, Morningstar Comment Letter ("Index providers are earning revenues from the licensing fees embedded in the derivative cost that is born by the fund and therefore its shareholders.").

567 *See, e.g.*, ICI Comment Letter; Wells Fargo Comment Letter (additional index reporting should only be triggered when a derivative represents 5% of NAV).

568 *See, e.g.*, SIFMA Comment Letter I ("We believe the original 1% value requirement is a far better indicator of materiality and should be adopted in this connection as well."); Oppenheimer Comment Letter (1% of net asset value).

have transparency into 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.[569] The 1% threshold is based on our experience with the summary schedule of investments, which requires funds to disclose investments for which the value exceeds 1% of the fund's NAV in that schedule.[570] We believe that, similar to the 1% threshold in the summary schedule of investments, providing a 1% *de minimis* threshold 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 nonpublic index for instruments that represent a smaller risk to the fund's overall performance. Separately, as discussed further below, we believe that this modification mitigates concerns some commenters had about public disclosure of such indexes.[571]

We also believe that it is appropriate to measure whether such derivative instrument exceeds the 1% threshold based on the derivative's notional value, as opposed to the current market value because derivatives with a small market value and a large notional amount could magnify losses or gains in net assets as compared to derivatives with a smaller notional amount, and thus believe that a derivative's notional value better measures its potential contribution to the gains or losses of the fund. Furthermore, as in Form N-PORT, we believe that providing a 1% *de minimis* for disclosing the components of a derivative with nonpublic reference assets considers the need for investors and other potential users to have transparency into the exposures

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[569] We are also modifying Form N-PORT to require similar disclosures. *See generally supra* section 0.

[570] *See* Instruction 3 to rule 12-12C of Regulation S-X; *see also* PwC Comment Letter.

[571] *See also supra* section 0.

that derivative contracts create while not requiring extensive disclosure of multiple components in a nonpublic index for instruments that represent a small amount of the fund's overall value.

Commenters also suggested that funds should provide narrative disclosures about the components of a referenced index or custom basket, including any applicable industry or sector concentrations.[572] The same commenters and others suggested that once a nonpublic index crosses the reporting threshold, we limit disclosure to the top 50 components and components that represent more than one percent of the index based on the notional value of the derivatives, as this standard is analogous to the current reporting requirement to identify holdings in the summary schedule of investments.[573] As discussed above, we continue to believe that the notional amount generally serves as an appropriate measure of the index's economic exposure to an underlying reference asset or metric.[574]

While, as we discussed above, we believe that it is appropriate to adopt a tiered reporting requirement for reporting on Form N-PORT, we are not adopting a tiered reporting requirement for disclosures under Regulation S-X. Unlike Form N-PORT, which will be reported in a structured XML format, schedules of investments are designed to be investor friendly documents. By requiring the reporting in the schedule of investments of all components of an underlying index or custom basket, we agree with commenters that noted that requiring the potential volume of disclosing components in an index in financial statements could add

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572 *See, e.g.*, PwC Comment Letter; AICPA Comment Letter.

573 *See, e.g.*, PwC Comment Letter; AICPA Comment Letter; ICI Comment Letter; MFS Comment Letter. Commenters also noted their belief that reporting should be based on a percentage of NAV, rather than notional value, as percentage of NAV is a better indicator of materiality. *See* SIFMA Comment Letter I; Oppenheimer Comment Letter (1% based on net, not notional, values); *contra* Morningstar Comment Letter ("Arbitrary limits on positions that should be disclosed for portfolios or reference indexes can mask the risk of an instrument.").

574 *See id.*

considerable length to the schedule of investments, rendering them more difficult for investors to review than limiting such disclosures to the most significant components.[575] Additionally, such disclosures may minimize the importance to investors of direct portfolio holdings and increase reporting costs to funds.[576] Finally, investors or others interested in knowing all components of such indexes will still have access to such information on Form N-PORT, without adding the volume to the financial statements that could occur by requiring complete disclosure in the financial statements.[577]

As a result, we are making a modification from our proposed amendments to Regulation S-X to require funds to only report the top 50 components of the index or custom basket and any components that represent more than one percent of the notional value of the index or custom basket.[578] Thus, if the index's or custom basket's components are not publicly available and the notional amount of the derivative represents more than 1% of the net asset value of the fund, the fund will provide a description of the index or custom basket and list separately (i) the 50 largest components in the index or custom basket and (ii) any other components where the notional value for that component exceeds 1% of the notional value of the index or custom basket.[579] For

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[575] *See* AICPA Comment Letter; PwC Comment Letter.

[576] *See* PWC Comment Letter (expressing concern that the cost of presenting numerous immaterial notional positions in the financial statements will exceed the benefit to the financial statement readers); AICPA Comment Letter (expressing concern that the cost of identifying and auditing numerous individual notional positions which typically are not reflected in the same accounting records as investment positions directly held, but instead appear in term sheets, counterparty confirmations, and off-line valuation spreadsheets – will exceed the benefit to financial statement readers).

[577] *Cf.* Franco Comment Letter (supporting more layered forms of disclosure "that meet the needs of different constituent end-users of disclosure.")

[578] *See* Instruction 3 to rule 12-13.

[579] *See* rules 12-13, n.3 and 12-13C, n.3 of Regulation S-X. We also modified language from the proposal to delete duplicative wording; *see* rule 12-13, n. 3 (deleting duplicative wording to "list

each investment separately listed, the fund will include the description of the underlying investment as would be required by Article 12 of Regulation S-X as part of the description, the quantity held, the value at the close of the period, and the percentage value when compared to the custom basket's net assets.[580]

As discussed more fully above, commenters also objected to the public disclosure of the components underlying an index as that disclosure could harm the intellectual property rights that index providers might assert and, as a result, harm investors who may lose the benefit of index products that would no longer be available to them.[581] However, we believe that it is important that fund investors are provided with the information necessary to make informed investing decisions.[582] This necessarily means that investors and other potential users have access to relevant information relating to investments in derivatives, including the components underlying an index.[583] As discussed further in section II.A.4, above, we believe that the potential for harm to fund investors is mitigated through the current public reporting delays for fund shareholder reports. [584] We are also adopting, as proposed, but subject to the modifications discussed below,[585] certain instructions for rule 12-13 that are generally the same across all of the schedules for derivatives contracts.[586]

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separately") and clarify instructions and conform to similar instructions in Form N-PORT; *see* rules 12-13, n. 3 and 12-13C, n. 3 (changing "is over" to "exceeds" and adding "custom" to "baskets").

[580] *See id*.; *see also supra* section 0.

[581] *See supra section* 0.

[582] *Id*.

[583] *Id*.

[584] *See also infra* footnote 1271.

[585] *See supra* section 0.

[586] Instruction 2 will add "description" and "counterparty" to the organizational categories of options contracts that must be listed separately. *See* rule 12-13, n. 2 of Regulation S-X. Instruction 4 will

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

We are adopting as proposed new rule 12-13A, which will require standardized reporting of open futures contracts. Under current rule 12-13, many funds currently report for each open futures contracts 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).[587] In order to allow investors to better understand the economics of a fund's investment in futures contracts, new rule 12-13A will require funds to also report notional amount and value.[588] Therefore, under new rule 12-13A, funds with open futures contracts will report: (1) description; (2) number of contracts; (3) expiration date; (4) notional amount; (5) value; and (6) unrealized appreciation/depreciation.[589]

We proposed a requirement that funds must reconcile the total of Column F (unrealized appreciation/depreciation) to the total variation margin receivable or payable on the related balance sheet.[590] Although we received no comment on this aspect of the proposal, upon further review, we recognize that there may be instances where the total unrealized appreciation or

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clarify that the fund need not include counterparty information for exchange-traded or centrally cleared options. *See* rule 12-13, n. 4 of Regulation S-X. Instruction 6 will require the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* rule 12-13, n. 6 of Regulation S-X; *see also infra* section 0. Instruction 7 will require the fund to indicate each investment whose value was determined using significant unobservable inputs. *See* rule 12-13, n. 7 of Regulation S-X; *see also infra* section 0. Instruction 8 will require Column G (Value) to be totaled and agree with the correlative amount shown on the related balance sheet. *See* rule 12-13, n. 8.

587 *See* current rule 12-13 of Regulation S-X.

588 *See* rule 12-13A, Columns D and E of Regulation S-X.

589 *See* rule 12-13A of Regulation S-X; *see also* Morningstar Comment Letter ("The notional of a futures contract is a key characteristic that is used to evaluate the impact on the portfolio. The disclosure is relevant and informative for investors and for fiduciaries acting on the behalf of shareholders and other investors.").

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

depreciation for the fund's futures contracts might not reconcile to the variation margin receivable or payable on the balance sheet. As a result, we are therefore not adopting this proposed instruction.

We received a comment that suggested that the Commission provide specific definitions for the terms "notional amount" and "value" for futures contracts.[591] According to the commenter, "notional amount" may reference either the notional amount at the time the futures contract was entered into or the current notional value. Since we believe, for Regulation S-X purposes, that it would be more useful for investors to understand the current notional amount for a futures contract, we are adopting rule 12-13A with a new instruction from the proposal that instructs funds to report "current notional amount" pursuant to Column D of new rule 12-13A.[592] For purposes of Article 12 of Regulation S-X, we note that section 2(a)(41) of the Investment Company Act currently contains a definition of "value" which is applicable to Regulation S-X.[593]

We are also adopting, as proposed, but subject to the modifications discussed below,[594] certain new instructions to the schedule for rule 12-13A that are similar to the other derivatives disclosure requirements.[595]

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591 *See* AICPA Comment Letter.

592 *See* rule 12-13A, n. 6.

593 *See* section 2(a)(41) of the Investment Company Act.

594 *See infra* section 0.

595 *See infra* section 0. Instruction 1 will require funds to organize long purchases of futures contracts and futures contracts sold short separately. *See* rule 12-13A, n. 1 of Regulation S-X. Instruction 2 will require funds to list separately futures contracts where the descriptions or expiration dates differ. *See* rule 12-13A, n. 2 of Regulation S-X. Instruction 3 will clarify that the description should include the name of the reference asset or index. *See* rule 12-13A, n. 3 of Regulation S-X. Instruction 4 will require the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* rule 12-13A, n. 4 of Regulation S-X; *see also infra* section 0. Instruction 5 will require the fund to indicate each investment whose value was determined using significant unobservable inputs. *See* rule 12-13A, n. 5 of Regulation S-X; *see also infra* section 0.

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

We are also adopting as proposed new rule 12-13B, which requires standardized disclosures for open forward foreign currency contracts.[596] Under current rule 12-13, many funds reported for each open forward foreign currency contract, 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).[597] In order to allow investors to better understand counterparty risk for forward foreign currency contracts, we are adopting as proposed, a requirement that funds also disclose the counterparty to each transaction.[598] Under new rule 12-13B, funds holding open forward foreign currency contracts will 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; (5) unrealized appreciation/depreciation.[599]

One commenter recommended that we include a clear definition of "forward contract" to avoid potential confusion and foster consistent derivatives disclosure under Form N-PORT, Regulation S-X, and Form ADV.[600] Many funds appear to be already classifying forward foreign currency contracts in their financial statements, and the approach we are adopting allows flexibility as products evolve. We are therefore declining to adopt a definition of "forward contract."

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

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

[598] *See* rule 12-13B, Column C of Regulation S-X.

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

[600] *See* T. Rowe Price Comment Letter.

Commenters suggested that open forward foreign currency contracts be grouped by currencies purchased or sold, or more specifically by US dollars when US domiciled funds mark currency to the US dollar within financial statements.[601] We do not believe that further refinement to the grouping of forward foreign currency contracts is necessary, as the commenters suggested, as new rule 12-13B provides funds with the flexibility to organize foreign currency contracts in the manner that they believe provides the clearest presentation of their financial statements. For example, if a fund concentrates its investments in a country such that its investments are generally denominated in a currency other than the US dollar, it may determine that grouping its contracts, including cross-currency forwards, by that currency would provide a clearer presentation to investors. We are therefore adopting instruction 1 to rule 12-13B as proposed, which will require the fund to separately organize forward foreign currency contracts where the description of currency purchased, currency sold, counterparties, or settlement dates differ.[602]

One commenter suggested that since most funds report derivatives on a gross basis, appreciation and depreciation for the disclosures of non-exchange-traded derivatives such as forward foreign currency contracts and swaps contracts should be disclosed in two separate columns or include subtotals, rather than in one column, as was proposed.[603] We agree that in certain circumstances this change in format would assist with reconciling the unrealized appreciation and depreciation with the corresponding figures on the fund's balance sheet and

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601 *See* State Street Comment Letter (forward foreign currency contracts should be grouped by purchased or sold US dollars); Morningstar Comment Letter (foreign currency forwards should be grouped and subtotaled by currencies purchased or sold).

602 *See* rule 12-13B, n. 1 of Regulation S-X.

603 *See* BlackRock Comment Letter.

would encourage this presentation to the extent it provides such assistance. In some cases, however, an extra column may not be necessary[604] and we are therefore not adopting the commenters' suggested modifications to the disclosure tables for those rules, although we note that the rules do not prevent a fund from presenting the information in two separate columns, if it so chooses.[605]

We are also adopting, as proposed, but subject to the modifications discussed below,[606] certain new instructions to the schedule for rule 12-13B that are similar to the other derivatives disclosure requirements.[607]

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

We are also adopting, substantially as proposed, rule 12-13C, which will standardize reporting of fund positions in open swap contracts.[608] Under current rule 12-13, for each open swaps contract, funds reported 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).[609] Under new rule 12-13C, funds will also be required to report the counterparty to each transaction

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[604] For example, if derivatives are presented net in accordance with ASC Topic 210 (Balance Sheet).

[605] *See* rule 12-13A, Column F and rule 12-13C, Column H of Regulation S-X.

[606] *See infra* section 0.

[607] Instruction 1 will require the fund to separately list forward foreign currency contracts where the description of currency purchased, currency sold, counterparties, or settlement dates differ. *See* rule 12-13B, n. 1 of Regulation S-X. Instruction 2 will require the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* rule 12-13B, n. 2 of Regulation S-X; *see also infra* section 0. Instruction 3 will require the fund to indicate each investment whose value was determined using significant unobservable inputs. *See* rule 12-13B, n. 3 of Regulation S-X; *see also infra* section 0. Instruction 4 will 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* rule 12-13B, n. 4 of Regulation S-X.

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

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

(except for exchange-traded and centrally cleared swaps), the contract's value, and any upfront payments or receipts.[610] This additional information will allow investors to both better understand the economics of the transaction, as well as its associated risks.[611] Therefore, funds will 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) upfront payments/receipts; and (8) unrealized appreciation/depreciation.[612] Commenters were generally supportive of this proposed disclosure, although some expressed concerns about some aspects of the disclosures, as discussed in more detail below. We are adopting rule 12-13C substantially as proposed in an effort to increase transparency of swap contracts, but are making some modifications in response to comments, which are discussed below. The final rules are designed to maintain enough flexibility for the variety of swap products that currently exist and future products that might come to market.

In addition to the major categories of swaps, commenters also recommended that centrally cleared swaps be grouped separately from over-the-counter swaps, as centrally cleared swaps do not bear the same types of risks as over-the-counter swaps.[613] While we do not believe

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610 *See* rule 12-13C, Columns C, F, and G of Regulation S-X.

611 For example, upfront payments or receipts 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.

612 *See* 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. One commenter suggested that, for over-the-counter swaps, appreciation and depreciation should be disclosed in two separate columns or include subtotals for appreciation and depreciation instead of one column. *See* BlackRock Comment Letter. But, for the same reasons as discussed in our discussion of rule 12-13B, we are not adopting the corresponding modification to the table for rule 12-13C, although the rules do not prevent a fund from presenting the information in two separate columns, if it so chooses.

613 *See, e.g.*, State Street Comment Letter; BlackRock Comment Letter.

that it is necessary to separately categorize centrally cleared swaps for purposes of Regulation S-X, as discussed more fully above, we are modifying proposed instruction 4 to Rule 12-13C to reflect that both exchange-traded and centrally cleared swaps need not list counterparty information.[614] Moreover, instruction 1 to rule 12-13C provides enough flexibility as drafted to allow funds to further categorize swaps contracts by over-the-counter or centrally cleared, should they choose to do so.[615]

We are also adopting instruction 3 of rule 12-13C as proposed, which will provide specific examples of the more common types of swap contracts (*e.g.*, credit default swaps, interest rate swaps, and total return swaps).[616] We recognize that other types of swaps exist (*e.g.*, currency swaps, commodity swaps, variance swaps, and subordinated risk swaps). For example, for a cross-currency swap, funds will report for purposes of Column A of 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 rule 12-13C will 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 will include both notional amounts and the currency in which each is denominated, or the same information could be presented in two separate columns.

In the context of providing comments on Form N-PORT, one commenter noted that credit default swaps are unique enough instruments that they should be treated separately from

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[614] *See supra* footnote 557 and accompanying text; *see also* rule 12-13C, n. 4 of Regulation S-X.

[615] *See* rule 12-13C, n. 1 of Regulation S-X.

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

other types of swaps.[617] We designed our amendments to Regulation S-X with enough flexibility to allow funds to report the significant elements of current and future investments and believe that rule 12-13C adequately requires funds to disclose the information sufficient for a user of financial information to understand the terms of payments to be received and paid of a fund's investments in swaps contracts, including credit default swaps. We are therefore adopting this portion of instruction 3 as proposed and not providing a separate schedule for credit default swaps.[618]

Consistent with comparable reporting requirements that we proposed in connection with Form N-PORT and rule 12-13 (open options contracts), in the case of a swaps contract with an underlying investment that is an index or basket of investments for which components are publicly available on a website as of the fund's balance sheet date, [619] or if the notional amount of the investment does not exceed one percent of the fund's NAV as of the close of the period, we proposed that the fund provide information sufficient to identify the underlying investment.[620] We also proposed that if the underlying investment is an index whose components are not publicly available on a website as of the fund's balance sheet date, or is

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[617] *See* Morningstar Comment Letter (Commission should require disclosure of protection written and protection purchased with the description containing the underlying, as well as columns for notional, ongoing payment, initial payment, maturity, and value.); *see also supra* section 0.

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

[619] As proposed, 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.

[620] *See* proposed rule 12-13, n. 3 of Regulation S-X. *See supra* footnotes 360–362 and accompanying text (discussing the rationale for similar proposed requirements in Form N-PORT).

based upon a custom basket of investments, and the notional amount of the swaps 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.[621]

In a modification from the proposal, and as discussed more fully in the open option contracts[622] and the Form N-PORT sections of this release,[623] in the case of a swaps contract 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 requiring that the fund provide information sufficient to identify the referenced asset, such as a description.[624] If the referenced asset is an index or custom basket whose components are not publicly available on a website as of the balance sheet date, and the notional amount of the derivative represents more than 1% of the net asset value of the fund as of the close of the period, the fund will provide a description of the index or custom basket and list separately (i) the 50 largest components in the index or custom basket and (ii) any other components where the notional value for that components is over 1% of the notional value of the index or custom basket.[625] For each investment separately listed, the fund will include the description of the underlying investment as would be required by Article 12 of Regulation S-X, as part of the description, the quantity held, the value at the close of the period, and the percentage value when compared to the custom basket's net assets.[626] As

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621 *See id.*

622 *See supra* section 0.

623 *See supra* section 0

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

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

626 *See id.*

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, we proposed that 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.[627] Commenters expressed concern that disclosing financing rates for swaps contracts could harm fund investors as financing rates are negotiated between parties.[628] We believe, however, that the Commission's objective to increase transparency and enhance investor understanding in these instruments by giving investors the opportunity to better understand the investments held in a fund's portfolio justifies the disclosure of financing rates for swaps contracts.[629] We are therefore adopting this portion of instruction 3 to rule 12-13C as proposed.[630]

We are also adopting, as proposed, but subject to the modifications discussed below,[631] other instructions to this rule that are similar across all of our rules for derivatives contracts, as well as one modification to our proposed instruction 7.[632]

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627 *See* proposed rules 12-13C, n. 3; and 12-12, n. 4 of Regulation S-X.

628 *See, e.g.,* MFS Comment Letter; Invesco Comment Letter; ICI Comment Letter (public benefit of disclosure does not outweigh potential competitive harm).

629 For example, negotiated terms of an investment in a restricted security of a private company are required to be disclosed. *See* current rule 12-12, n. 6 of Regulation S-X. For the same reasons we discussed above, we believe that it is necessary for funds to report the specific terms for other derivatives holding information.

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

631 *See infra* section 0.

632 Instruction 5 will require the fund to indicate each investment which cannot be sold because of restrictions or conditions applicable to the investment. *See* rule 12-13C, n. 5 of Regulation S-X; *see also infra* section 0. Instruction 6 will require the fund to indicate each investment whose value was determined using significant unobservable inputs. *See* rule 12-13C, n. 6 of Regulation S-X; *see also*

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

We are also adopting, as proposed, amendments to current rule 12-13 and, for organization and consistency, are renumbering it as rule 12-13D.[633] Rule 12-13D will 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.[634] We received no comments on our proposed amendments to current rule 12-13 (and are adopting rule 12-13D as proposed). Thus rule 12-13D will require reporting of: (1) description; (2) balance held at close of period-quantity; and (3) value of each item at close of period.[635] We expect that funds will report, among other holdings, investments in physical holdings, such as real estate or commodities, pursuant to rule 12-13D. As discussed below, we are amending current rule 12-13's requirement that funds disclose "each investment not readily marketable"[636] in favor of disclosures concerning whether an investment is restricted and if an investment's value was determined using significant unobservable inputs.[637] We are also adopting the proposed new instructions to

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infra section 0. Instruction 7 will require that Columns 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* rule 12-13C, n. 7 of Regulation S-X. Note we proposed for instruction 7 to also include Column F (value) in the total, however, upon further review, we have determined that correlating the amounts from Columns F, in addition to Columns G and H would be duplicative and therefore unnecessary.

633 *See* rule 12-13D of Regulation S-X

634 *See id.*

635 *Id.*

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

637 *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 investment); rule 12-13D, n. 7 (requiring the fund to indicate each issue of securities whose value was determined using significant unobservable inputs); s*ee also infra* section 0.

the schedule that are generally the same across all the schedules for derivatives contracts, subject to the modifications discussed below.[638]

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

While we did not propose changes to the current schedules for rules 12-12, 12-12A, and 12-12C, we proposed certain additional rule instructions that would include new reporting requirements, as well as certain clarifying changes, including renumbering several of the schedules. With the exception of the instructions discussed below, we are adopting the amendments to new rules 12-12 through 12-12B as proposed.

We proposed several modifications to the instructions to rule 12-12, the rule concerning disclosure of investments in securities of unaffiliated issuers. We proposed 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.[639] Commenters noted that requiring categorization of both the industry *and* geographic region (as opposed to categorizing one factor) would add considerable length to the schedule of investments and make it more difficult to understand.[640] We were persuaded that requiring categorization of both industry and

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[638] Instruction 1 will require the fund to organize each investment separately where any portion of the description differs. *See* rule 12-13D, n. 1 of Regulation S-X. Instruction 2 will require the fund to categorize the schedule by the type of investment, and related industry, country, or geographic region, as applicable. *See* rule 12-13D, n. 2 of Regulation S-X. Instruction 3 will require that the description of the asset include information sufficient for a user to understand the nature and terms of the investment. *See* rule 12-13D, n. 3 of Regulation S-X; *see also infra* section 0.

[639] *See* proposed rule 12-12, n. 2 of Regulation S-X; *see also* proposed rules 12-12A, n. 2; 12-12B, n. 1; 12-13D, n. 2; and 12-14, n. 2 of Regulation S-X.

[640] *See, e.g.*, Oppenheimer Comment Letter; State Street Comment Letter; Vanguard Comment Letter; MFS Comment Letter; Wells Fargo Comment Letter (in chart or table); SIFMA Comment Letter I; ICI Comment Letter; BlackRock Comment Letter (results in additional costs to shareholders, without a corresponding benefit); AICPA Comment Letter. In response to our proposal to categorize

geographic region would add unnecessary length and confusion to the schedule of investments, which could ultimately undermine the schedule's usefulness to investors, and are therefore not adopting these requirements.[641]

One commenter requested that, should we adopt the proposed instructions relating to categorization of both industry and geographic region (which, as discussed in the prior paragraph, we are not adopting), the instructions should be integrated into Regulation S-X that standardize how funds report geographic concentrations.[642] Others noted that the disclosure of country of risk or geographic region should be treated as nonpublic since it is subjective in nature and based on unique assumptions and inputs used by fund management.[643] Since we have decided to not adopt the proposed instructions which would have required funds to categorize investments by both industry and geographic regions, we do not think it is necessary to include specific instructions on how funds should report geographic concentrations or treat the disclosure as nonpublic. However, we note the current GAAP requirement to disclose significant concentrations of credit risk, which includes information about shared regions that identify the concentration remains unchanged.[644]

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investments by both industry and geographic regions, some commenters suggested as an alternative that funds should report the percentage of securities by country or geographic region as a separate schedule, graph, or chart. *See, e.g.*, State Street Comment Letter; MFS Comment Letter; ICI Comment Letter; BlackRock Comment Letter; AICPA Comment Letter. However, given the fact that we are not adopting this proposal, we believe a separate schedule is unnecessary.

641 *See* rule 12-12, n. 2 of Regulation S-X; *see also* rules 12-12A, n. 4; 12-12B, n. 2; 12-13D, n. 2; and 12-14, n. 2 of Regulation S-X.

642 *See* SIFMA Comment Letter I.

643 *See, e.g.*, MFS Comment Letter; ICI Comment Letter (pertaining to disclosure of country of risk in Form N-PORT).

644 *See* FASB ASC 825-10-50-21(a) (Financial Instruments-Overall-Disclosure-Concentrations of Credit Risk of All Financial Instruments).

In order to provide more transparency to a fund's investments in debt securities, we are adopting, with certain modifications discussed below, our proposed instruction to rule 12-12 requiring a fund to indicate the interest rate or preferential dividend rate and maturity date for certain enumerated debt instruments.[645] When disclosing the interest rate for variable rate securities, we proposed that the fund describe the referenced rate and spread.[646] In proposing disclosures for variable rate securities, we requested comment on other alternatives, such as period-end interest rate (*e.g.* the investment's interest rate in effect at the end of the period).[647] We received several comments supporting our proposal to provide the reference rate and spread for variable rate securities, reasoning that the disclosure of the components of the variable rate would be easier for investors and other interested parties to determine the investment's current rate at any given time (as opposed to the rate at the end of the reporting period).[648] However, another commenter suggested that the period-end interest rate is the most appropriate variable rate security disclosure for shareholders.[649]

We continue to believe that disclosure of the referenced rate and spread will allow investors to better understand the economics of the fund's investments in variable rate debt securities. We are persuaded, however, that the period-end interest rate is also important for investors because it will provide investors with the actual interest rate of the investment at the period end, thereby giving investors both the ability to understand the investment's current return

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645 *See* proposed rule 12-12, n. 4 of Regulation S-X.

646 *See id*.

647 *See* Proposing Release, *supra* footnote 7, at 33622.

648 *See* State Street Comment Letter; *see also* Morningstar Comment Letter (Disclosure would allow investors to identify when cash flows associated with a fund's returns are fixed or variable).

649 *See* Wells Fargo Comment Letter.

(through period-end rate) and to better understand how interest rate changes could affect the investment's future returns. Therefore, in a modification from the proposal, we are now including in the instruction a requirement that the fund both describe the referenced rate and spread and provide the end of period interest rate for each investment, or include disclosure of each referenced rate at the end of the period.[650] For securities with payments-in-kind, we proposed 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.[651] We received no comments addressing this item and therefore are adopting as proposed.[652]

We also proposed to modify the current instruction to rule 12-12[653] 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.[654] We received no comments on this item. This disclosure, which we believe is consistent with current industry practices, will increase the transparency of the fund's securities lending activities, and we are adopting the modification to the instruction as proposed.[655]

We proposed to modify current instruction 3 of rule 12-12 (proposed instruction 5 of rule 12-12) concerning the organization of subtotals for each category of investments, making the

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[650] *See* rules 12-12, n. 4; 12-12A, n. 3; 12-14, n. 3 of Regulation S-X. For purposes of clarity, we also amended our proposed instructions to 12-12A and 12-14 to state the complete instruction, rather than, as proposed, reference the instruction in rule 12-12, n. 4. *Id*.

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

[652] *See* rule 12-12, n. 4 of Regulation S-X; *see also See* rules 12-12A, n. 3 and 12-14, n. 3 of Regulation S-X.

[653] *See* current rule 12-12, n. 7 of Regulation S-X.

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

[655] *See* rule 12-12, n. 10 of Regulation S-X; *see also* rule 12-12B, n. 13 of Regulation S-X.

instructions consistent with those in proposed rule 12-12B (current rule 12-12C), Summary schedule of investments in securities of unaffiliated issuers.[656] We received no comments on this item and are adopting as proposed.[657]

Likewise, we are adopting several modifications to rule 12-12A regarding the presentation of securities sold short, in order to conform the instructions to rule 12-12.[658]

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 current rule 12-12C (Summary schedule of investments in securities of unaffiliated issuers) and the full schedule is filed under Form N-CSR.[659] In order to maintain numbering consistency and organization throughout the regulation, we are renaming 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 proposed to modify the schedule of proposed rule 12-12B (current rule 12-12C), but again

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[656] *See* proposed rule 12-12, n. 5 of Regulations S-X; *see also* proposed rule 12-12B, n. 2 of Regulation S-X

[657] *See* rule 12-12, n. 5 of Regulations S-X; *see also* rules 12-12A, n. 4; rule 12-12B, n. 2 of Regulation S-X; *see also* rule 12-14, n. 7 of Regulation S-X.

[658] Instruction 2 will 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* rule 12-12A, n. 2. Instruction 3 will require the fund to identify the interest rate or preferential dividend rate and maturity date as required by Instruction 4 of rule 12-12. *See* rule 12-12A, n. 3 of Regulation S-X. Instruction 4 will require the subtotals for each category of investments, subdivided both by type of investment and industry, country, or geographic region to be shown together with their percentage value compared to net assets, in the same manner as is required by Instruction 5 of rule 12-12. *See* rule 12-12A, n. 4 of Regulation S-X. Instruction 6 will require the fund to identify each issue of securities whose fair value was determined using significant unobservable inputs. *See* rule 12-12A, n. 6 of Regulation S-X; *see also infra* section 0.

The proposal included an instruction in the schedule, as we proposed in the other schedules, that would require the fund to identify each issue of securities held in connection with open put or call option contracts. *See* proposed rule 12-12A, n. 7 of Regulation S-X. We are not adopting this instruction because, as noted by one commenter, it is not relevant to securities sold short. *See* AICPA Comment Letter.

[659] *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* footnote 421.

added similar changes to its instructions. We received no comments addressing this proposal and, subject to the relevant modifications discussed above, we are adopting these instructions as proposed. [660]

4. Instructions Common to Rules 12-12 through 12-12B and 12-13 through 12-13D

We proposed several instructions to the proposed rules in order to maintain consistency with the disclosures required by current rules 12-12 and 12-13. Current rule 12-13 contains an instruction requiring identification of "each investment not readily marketable."[661] We proposed to modify this requirement in current rule 12-13 (new rule 12-13D), and add it to the new schedules we are adopting or modifying concerning derivatives, by adding instructions that funds must indicate (1) whether an investment was fair valued by using significant unobservable inputs[662] and (2) whether an investment cannot be sold because of restrictions or conditions applicable to the investment.[663] These proposed instructions were intended to increase transparency into the marketability of, and observability of valuation inputs for, a fund's

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[660] Instruction 2 will 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 will extend rule 12-12's requirement that funds indicate the interest rate or preferential dividend rate and maturity date for certain enumerated securities. *See* rule 12-12B, n. 3 of Regulation S-X. Instruction 5 will require for options purchased all information that would be required by rule 12-13 for written option contracts. *See* rule 12-12B, n. 5 of Regulation S-X. Instruction 12 will require the fund to indicate each issue of securities whose fair value was determined using significant unobservable inputs. *See* rule 12-12B, n. 12 of Regulation S-X; *see also infra* section 0. Instruction 13 will extend rule 12-12's requirement that the fund indicate "where any portion of the issue is on loan." *See* rule 12-12B, n. 13 of Regulation S-X.

[661] *See* current 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.").

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

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

investments by instead requiring separate identification of investments that are restricted investments, as well as those investments that were fair valued using significant unobservable inputs. Similarly, for proposed rules 12-12, 12-12A, and 12-12B, we proposed to include an instruction requiring funds to indicate whether an issue of securities was fair valued by using significant unobservable inputs.[664]

We received comments generally supporting the disclosure of investments fair valued using significant unobservable inputs.[665] However, in order to make "value" consistent with current Article 12, the final rule amendments only refer to "value" (rather than "fair value," as we do in the proposed amendments to Regulation S-X), which is consistently used and defined under Regulation S-X.[666] We are therefore adopting the requirement that funds indicate if an investment's value was determined using significant unobservable inputs.[667]

We received one comment relating to our proposed instruction requiring identification of a derivative that cannot be sold because of restrictions or conditions applicable to the

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664 *See* proposed rules 12-12, n. 9; 12-12A, n. 6; 12-12B, n. 12.

665 *See, e.g.*, Harvest Comment Letter; Markit Comment Letter.

666 *See, e.g.*, current rule 12-12, Column C ("Value of each item at close of period"); current rule 12-13, Column C (same).

667 *See* rule 12-13, n. 7 of Regulation S-X; *see also* rules 12-12, n. 9; 12-12A, n. 6, 12-12B, n. 12; 12-13A, n. 5; 12-13B, n. 3; 12-13C, n. 6; and 12-13D, n. 7 of Regulation S-X. These instructions will require funds to identify each investment categorized in Level 3 of the fair value hierarchy in accordance with ASC Topic 820. *See* FASB ASC 820-10-20 (Fair Value Measurement-Overall-Glossary) ("ASC 820-10-20") (defining "level 3 inputs" as "unobservable inputs for the asset or liability"); *see also* FASB ASC 820-10-35-37A (Fair Value Measurement-Overall-Subsequent Measurement-Fair Value Hierarchy) ("ASB 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); Harvest Comment Letter (supporting disclosure of level 3 securities).

derivative.[668] That commenter noted that we should clarify and provide examples of what is meant by restrictions applicable to derivatives.[669] We believe the instruction is clear that a derivative that cannot be sold as of the reporting date because of a restriction applicable to the investment itself (as opposed to e.g. illiquidity in the market) should be identified. Therefore, we are adopting the instruction as proposed.[670]

Current rules 12-12, 12-12C, and 12-13 each contain an instruction to include tax basis disclosures for investments.[671] We proposed extending this requirement to the proposed rules concerning derivatives holdings and securities sold short[672] because we believed that this type of tax basis information may be important to investors in investment companies, which are generally pass-through entities pursuant to Subchapter M of the Internal Revenue Code.[673] We received several comments arguing against extending our proposed tax basis disclosures to the proposed derivatives schedules. Several commenters noted their belief that disclosure of tax basis by investment type would not provide meaningful disclosure to investors, while increasing

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668 *See* State Street Comment Letter.

669 *Id*. ("For example, it is unclear whether the lockup period for trading blocks would be included as a restriction applicable to derivatives. If the SEC's purpose is to have a narrow definition, then it is unclear whether the stricter definition includes limitation on the types of entities that would be able to buy an instrument such as rule 144a [sic] restrictions, which limits trading to qualified institutional buyers."). Consistent with this example, a restricted security subject to rule 144A would be identified as restricted under rules 12-12, 12-12A, or 12-12B only if the security has restrictions and the fund cannot sell the security to qualified institutional buyers at the report date due to those restrictions.

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

671 *See* rule 12-12, n. 8; 12-12C, n. 11; and 12-13, n. 7 of Regulation S-X.

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

673 *See* 26 U.S.C. 851, *et seq*.

the volume and complexity of the financial statements.[674] Others stated that the tax-basis information is unnecessary in light of recently added GAAP-required disclosure of tax basis components of dividends and distributions.[675] The current GAAP requirement that funds disclose the components of distributable earnings (including undistributed ordinary income, undistributed long-term capital gains, capital loss carryforwards and unrealized appreciation/depreciation) on a tax basis using the most recent tax year-end enables investors to determine the amount of accumulated and undistributed earnings that they could potentially receive in the future and on which they could be taxed.[676] Some commenters recommended an alternative that funds should disclose the aggregate tax basis of all investments relating to the portfolio as whole, or those that are recorded as assets or liabilities.[677]

We agree that tax disclosures relating to the portfolio as a whole provides sufficient information for investors. However, current GAAP disclosures do not require funds to report the cost of all investments in an unrealized appreciation and the cost of all assets in an unrealized depreciation on a gross basis, which we believe may be useful to investors to further understand the potential amounts they might receive and on which they could be taxed. As a result, we

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674 *See* PwC Comment Letter; EY Comment Letter; CRMC Comment Letter; State Street Comment Letter; MFS Comment Letter; ICI Comment Letter; AICPA Comment Letter.

675 *See* Oppenheimer Comment Letter; MFS Comment Letter; and ICI Comment Letter (Recommending that the Commission require funds to present tax basis information relating to the tax basis components of dividends and distributions in the notes to the financial statements); *see also* FASB ASC 946-20-50-12 (Financial Services – Investment Companies, Investment Company Activities) ("ASC 946-20-50-12");

676 ASC 946-20-50-12; *see also* ICI Comment Letter. We believe that this level of information in the aggregate is sufficient for investor needs and additionally recognize the complexity involved in capturing the tax characterizations of certain investments in the format of the Schedules. *See* PwC Comment Letter.

677 *See* PwC Comment Letter; and Vanguard Comment Letter (federal tax disclosure should be provided, annually instead of semiannually, on an aggregate basis, instead of in separate investment schedules).

have determined not to extend the tax basis disclosures currently required by rules 12-12, 12-12B, and 12-13 to our new disclosures of derivative investments (rules 12-13 through 12-13C) and securities sold short (rule 12-12A). For the same reasons, we are removing this disclosure requirement from each of the rules 12-12, 12-12B (current rule 12-12C), and 12-13D (current rule 12-13)[678] and instead moving it to Article 6 of Regulation S-X as a rule of general application requiring that funds report these tax basis disclosures relating to the portfolio as a whole.[679]

We also proposed to require funds to identify illiquid investments.[680] As we stated in the proposal, liquidity is an important consideration for a fund's investors in understanding the risk exposure of a fund.[681] We received numerous comments registering concerns with this proposed instruction to require portfolio-level liquidity disclosures.[682] For example, commenters noted that disclosure of illiquid assets could confuse fund shareholders, as they could erroneously

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678 *See* current rules 12-12, n. 8; 12-12C, n. 11; 12-13, n. 7 of Regulation S-X.

679 *See* rule 6-03(h)(2) (adding the requirement that the fund "state the following amounts based on cost for Federal income tax purposes: (i) Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost, (ii) The aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value, (iii) The net unrealized appreciation or depreciation, and (iv) The aggregate cost of investments for Federal income tax purposes.")

680 *See* proposed rule 12-12, n. 10 of Regulation S-X; s*ee also* proposed rules 12-12B, n. 13; and 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* footnote 290.

681 *See* Proposing Release, *supra* footnote 7, at 116. *See also* Liquidity Adopting Release, *supra* footnote 9.

682 *See* State Street Comment Letter (Commission should provide guidance as to what assumptions would be appropriate in determining if an investment is illiquid); PwC Comment Letter (Recommending disclosure of fund's basis for determining illiquid investment as defined by management/board of directors); EY Comment Letter (defer adopting until the proposed illiquidity standards have been updated); CRMC Comment Letter (same); Pioneer Comment Letter; *contra* Morningstar Comment Letter ("The requirement to identify positions that are illiquid is adequate and appropriate to replace 'investments not readily marketable.' This information can tie directly to monitoring of investment limitations under the Act.").

assume that disclosure of illiquid assets is an objective determination.[683] Similarly, commenters noted that liquidity information could become stale given the time delay between the end of the period and the time that such information would become available to the public.[684] Others expressed concern that portfolio-level liquidity disclosures in financial statements would be difficult and costly to audit, as auditors would be required to engage specialists to determine the validity of the fund's liquidity determinations for each investment.[685] Moreover, as discussed in the Liquidity Adopting Release, we are concurrently adopting portfolio-level liquidity reporting on Form N-PORT which we believe mitigates many of the commenters' concerns and is a more appropriate method of public reporting.[686] Accordingly, we are not adopting the proposed instructions in Regulation S-X relating to the liquidity of investments.[687]

5. Investments In and Advances to Affiliates – Rule 12-14

We proposed amendments to rule 12-14 (Investments in and advances to affiliates).[688] Rule 12-14 currently 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

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683 *See, e.g.*, PwC Comment Letter; Oppenheimer Comment Letter; MFS Comment Letter (liquidity determinations should be non-public); Deloitte Comment Letter; Invesco Comment Letter; Schwab Comment Letter; ICI Comment Letter; and AICPA Comment Letter.

684 *See* Deloitte Comment Letter.

685 *See, e.g.*, PwC Comment Letter; ICI Comment Letter; and AICPA Comment Letter. Commenters also suggested, as an alternative, requiring registrant to label the disclosure of illiquid investments as "unaudited subject to change based on market conditions" as a way to mitigate financial statement and audit costs. *See* Deloitte Comment Letter. However, while this suggestion may mitigate some auditing costs for funds, as discussed above, we have determined that disclosures on Form N-PORT, with portfolio-level liquidity information being made public, provides an appropriate method of providing information for the benefit of the Commission, investors, and other interested third parties.

686 *See* Liquidity Adopting Release, *supra* footnote 9.

687 *See id.*

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

the outstanding voting securities.[689] 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 had proposed to modify Column C of the schedule to rule 12-14 to require "net realized gain or loss for the period,"[690] and Column D to require "net increase or decrease in unrealized appreciation or depreciation for the period" for each affiliated investment.[691] We received one comment supporting this aspect of the proposal and are adopting it as proposed.[692]

Likewise, in instruction 6(e) and (f), we proposed 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.[693] Disclosure of these realized gains or losses and changes in unrealized appreciation or depreciation, in addition to the current requirement to disclose the amount of affiliated income, will allow investors to understand the full impact of an affiliated investment on a fund's

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689 *See* rule 12-14 of Regulation S-X; *see also* section 2(a)(3)(A) of the Investment Company Act (defining an "Affiliated person" as "any person directly or indirectly owning, controlling, or holding with power to vote, 5 per centum or more of the outstanding voting securities of such other person.").

690 *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 proposed to replace this requirement with "net realized gain or loss for the period."

691 *See* proposed rule 12-14, Column D of Regulation S-X.

692 *See* Morningstar Comment Letter; *see also* Columns C and D of Rule 12-14 of Regulation S-X.

693 *See* proposed rule 12-14, n. 6(e) and (f) of Regulation S-X.

statement of operations.[694] We received no comments on this proposal and are therefore adopting our modifications to instructions 6(e) and 6(f) as proposed.[695]

Additionally, we proposed 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 rules 12-12, 12-12A, and 12-12B, for which we received no comments and are adopting as proposed.[696]

We proposed several other amendments to the instructions to rule 12-14 in order to, in part, conform the rule to our disclosure requirements in rules 12-12 and 12-13. Subject to the modifications discussed above in section II.C.4, we are adopting as proposed. [697]

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694 *See* current rule 6-07 of Regulation S-X [17 CFR 210.6-07].

695 *See* rule 12-14, n. 6(e) and (f) of Regulation S-X.

696 *See id*., n. 7; *see also* proposed rules 12-12, n. 5; 12-12A n. 4; and 12-12B, n. 2 of Regulation S-X.

697 Instruction 1 will 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* rule 12-14, n. 1 of Regulation S-X. Instruction 2 will require the fund to categorize the schedule to rule 12-14 in the same manner as is required by Instruction 2 of rule 12-12. *See* rule 12-14, n. 2 of Regulation S-X. Instruction 3 will require the fund to identify the interest rate or preferential dividend rated and maturity date, as applicable. *See* rule 12-14, n. 3 of Regulation S-X. Instruction 4 will 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* rule 12-14, n. 4 of Regulation S-X. Instruction 5 will 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* rule 12-14, n. 5 of Regulation S-X. Instructions 6(a) and (b) will update references to Column D to reference Column E in order to reflect our proposed changes to rule 12-14's schedule. *See* rule 12-14, nn. 6(a) and (b) of Regulation S-X. Instruction 6(d), which adds clarifying language from Instruction 7 of rule 12-12, will provide the fund with more detail on the definition of non-income producing securities. *See* rule 12-14, n. 6(d) of Regulation S-X. Instruction 8 will require the fund to identify each issue of securities whose fair value was determined using significant unobservable inputs. *See* rule 12-14, n. 8 of Regulation S-X; *see supra* section 0. Instruction 9 will 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 10 to rule 12-12. *See* rule 12-14, n. 9 of Regulation S-X.

6. Form and Content of Financial Statements

Finally, we are adopting substantially as proposed, 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 adopting today are intended to conform Article 6 with our changes to Article 12 and update other financial statement requirements.[698] As part of these changes, we proposed to modify the title and the 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.[699] This amendment is a technical amendment and does not change existing requirements for BDCs.[700] Commenters did not object to this change,[701] and we are adopting it as proposed.[702]

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[698] We proposed 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)]. We received no comments on this proposed amendment and are adopting as proposed. *See* rule 6-03(c) of Regulation S-X [17 CFR 210.6-03(c)].

[699] *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.

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.

[700] *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]).").

[701] *See, e.g.*, Deloitte Comment Letter. This commenter suggested that, in addition, we also clarify that Article 6 applies to Securities Act registrants who meet the definition of "Investment Company" under FASB or IFRS, yet are not registered under the Investment Company Act. *Id*. The change to reference BDCs is a technical change that is not intended to expand the entities subject to Article 6. *See supra* footnote 699 and accompanying text. The Proposing Release addressed the reporting and disclosure of information by registered investment companies and BDCs. Since the Proposing Release did not address the possibility of subjecting other entities, such as the ones described by the commenter, to this rulemaking, extending the regulations could have unforeseen implications, including potentially subjecting such entities to the requirements of Article 6. We believe such a change is beyond the scope of this rulemaking.

In order to allow a more uniform presentation of investment schedules in a fund's financial statements, we proposed to rescind subparagraph (a) of rule 6-10 under Regulation S-X, regarding which schedules are to be filed.[703] One commenter noted that consolidated subsidiary information could be useful for investors, as information about the specific entities' ownership may make the structure of the fund more transparent to investors.[704] We were persuaded that such information may be useful to investors and are therefore not rescinding subparagraph (a) of rule 6-10.[705]

Another commenter requested that we require disclosure of costs associated with the management of controlled foreign corporations ("CFCs") or expenses embedded in the return being received in the footnotes to the financial statements.[706] The commenter also requested that funds be required to report these expenses either in calculations of total operating expenses or as acquired fund expenses in other filings.[707] We believe that disclosure of these expenses are already included, as applicable, in (1) the expenses reported within the statement of operations of the consolidated investment company where the CFC is a consolidated entity,[708] or (2) in the required Acquired Fund Fees and Expenses disclosures within the prospectus filing of the

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[702] *See* rules 6-01; 6-03; 6-03(c)(1); 6-03(d); 6-03(i); 6-04; 6-04.10; and 6-07 of Regulation S-X.

[703] *See* proposed rule 6-10 of Regulation S-X.

[704] Deloitte Comment Letter ("For example, if certain consolidated investments are owned by a consolidated subsidiary domiciled in a foreign jurisdiction where the political climate might be unstable or where creditors may have inferior or superior rights to assets, investors are better served when informed of these economic distinctions.").

[705] *See* rule 6-10(a) of Regulation S-X.

[706] *See* Morningstar Comment Letter.

[707] *Id*.

[708] *See* FASB ASC 946-810 (Financial Services – Investment Companies – Consolidation).

investment company where the CFC is not consolidated; and therefore no further modifications are necessary.[709]

Current rule 6-10(a) also 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.[710] As we stated in the Proposing Release, 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. Our proposal to rescind rule 6-10(a) would have also eliminated this instruction. Commenters generally supported eliminating this instruction as it would assist with the comparability of funds by shareholders.[711] In light of the increased use of derivatives by funds, we continue to 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 this may 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. However, as discussed above, we were persuaded to not rescind rule 6-10(a) in these final rules. Thus we are adopting a conforming modification to rule 6-10(a) to eliminate this specific instruction.[712]

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[709] *See* Item 3 and Instruction 3(f) to Item 3 of Form N-1A.

[710] *See* current rule 6-10(a) of Regulation S-X.

[711] *See, e.g.*, State Street Comment Letter; ICI Comment Letter.

[712] *See* rule 6-10(a) of Regulation S-X ("When information is required in schedules for both the person and its subsidiaries consolidated, it may be represented in the form of a single schedule, provided that

We also proposed changes to rules 6-03 and 6-04 to specifically reference the investments required to be reported on separate schedules in amended Article 12.[713] We received no comment on these proposals and are adopting them as proposed.[714] Additionally, we proposed 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.[715] 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 may present 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 under the Liabilities section of the fund's balance sheet. Given the increasing use of derivatives by funds, we

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items pertaining to the registrant are separately shown and that such single schedule affords a properly summarized presentation of the facts.") Additionally, in order to conform rule 6-10(c) with the new requirements under Article 12, we added schedules corresponding to our proposed new schedules of derivatives investments, as discussed above. *See* rule 6-10(c) of Regulation S-X.

[713] *See* proposed rules 6-03(d); 6-04.3; 6-04.9 of Regulation S-X. We also proposed to amend rule 6-04.10 to reflect that the amount of liabilities for securities sold short and for open options contracts written would be reported under proposed rule 6-04.9. *See* proposed rule 6-04.10 of Regulation S-X.

[714] *See* rules 6-03(d); 6-04.3; 6-04.9; and 6-04.10 of Regulation S-X.

[715] *See* current rule 6-04.4 of Regulation S-X [17 CFR 201.6-04.4].

continue to believe eliminating current rule 6-04.4 would provide more complete information to investors. We received no comments on this proposal and are adopting this change as proposed, as well as the corresponding proposed change in rule 6-03(d) to remove the reference to "total investments reported under [rule 6-04.4]."[716] As discussed above in section II.C.4, we are also adding a requirement to rule 6-03(h) requiring funds to report the cost of all investments in an unrealized appreciation and the cost of all assets in an unrealized depreciation on a gross basis.[717]

We are also adopting, as proposed, an amendment to rule 6-04 to refer individually to our derivatives disclosures in proposed rules 12-13A through 12-13C.[718] As is currently the case, these proposed amendments are not meant to require gross presentation where netting is allowed under U.S. GAAP.[719] 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. We received no comments on this proposal.

We also proposed, amendments to rule 6-05.3 which would specifically require presentation of items relating to investments other than securities in the notes to financial statements.[720] Current rule 6-05.3 only requires presentation in the notes to financial statements of disclosures required by rules 6-04.10 through 6-04.13, which include information relating to

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716 *See* rules 6-04.4; and 6-03(d) of Regulation S-X.

717 *See* rule 6-03(h).

718 *See* rules 6-04.3; 6-04.6; and 6-04.9 of Regulation S-X.

719 *See* FASB ASC 210 (Balance Sheet) and ASC 815.

720 *See* proposed rule 6-05.3 of Regulation S-X.

securities sold short and open option contracts written.[721] Our proposal would also have amended rule 6-05.3 to require fund financial statements to reflect all unaffiliated investments other than securities presented on separate schedules under Article 12.[722] We received no comments on this aspect of the proposal and are adopting it as proposed.[723]

We also proposed to add new disclosure requirements that are designed to increase transparency to investors about certain investments and activities. First, we proposed 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 in order to allow investors to better understand the income generated from, as well as the expenses associated with, securities lending activities.[724] As discussed in more detail below, after consideration of issues raised by commenters, we have determined that it is more appropriate to require that these disclosures be made in a fund's Statement of Additional Information (or, for closed-end funds, reports on Form N-CSR) or in Form N-CEN, rather than to require their inclusion in its financial statements.[725]

Second, we proposed to 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.[726] Our proposed amendment to rule 6-07 was intended to increase transparency for investors in order to allow them to better understand when fund income is earned, but not

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

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

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

[724] *See* proposed rule 6.03(m) of Regulation S-X.

[725] *See infra* section 0 and section 0.

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

received, in the form of cash. While one commenter generally supported disclosure for in-kind payments,[727] many recommended, if the Commission should adopt such a disclosure, that we provide a disclosure threshold for non-cash income, such as one similar to the requirement to disclose expense items that exceed 5 percent of total expenses.[728] We agree with commenters' that a disclosure threshold for non-cash disclosures would alleviate unnecessary reporting burdens. We also agree with commenters that, in order to keep all income disclosures under rule 6-07.1 consistent, a 5 percent *de minimis* threshold, which is the current requirement for categories of investment income and expenses under current rule 6-07.1, is also appropriate for our amended non-cash income disclosure under rule 6-07.1.[729] As a result, we are modifying the proposal by adopting a new instruction to rule 6-07.1 clarifying that a separate disclosure of income from payment-in-kind interest or non-cash dividends, like other types of income under current rule 6-07.1, is only required if all income of this type exceeds 5 percent of the fund's investment.[730]

Other commenters requested that we define "non-cash dividends" and "payment-in-kind-interest earned."[731] Finally, as in Form N-PORT, some commenters noted that certain in-kind payments, such as when a fund has the option to elect to receive either cash or in-kind payments, do not raise the same risks as in-kind payments resulting from a distressed issuer and should

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[727] *See* ICI Comment Letter (supporting disclosure of payment-in-kind income with a 5 percent threshold).

[728] *See* State Street Comment Letter (recommending a 10% benchmark); AICPA Comment Letter (5% threshold); MFS Comment Letter (opposed to separate presentation of non-cash income for payment-in-kind securities because the schedule of investments provides adequate disclosure of securities with payment-in-kind income, but supporting a de minimis threshold for other types of non-cash income); PwC Comment Letter (same).

[729] *See, e.g.*, PwC Comment Letter; and MFS Comment Letter.

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

[731] *See* PwC Comment Letter; and AICPA Comment Letter.

therefore be disclosed separately.[732] As discussed above in connection with Form N-PORT, we agree that in-kind payments resulting from an election, rather than, for example, issuer distress, do not involve the same risk of issuer default. Therefore not requiring funds to report on Form N-PORT interest paid in-kind if the fund has the option of electing in-kind payments and has elected to be paid in-kind.[733] However, we believe for the statement of operations, it is important that all types of income from in-kind payments be subject to the separate disclosure threshold so that investors can compare this information to other funds. Thus, we do not believe that it is appropriate or necessary to provide prescriptive definitions of "non-cash dividends" and "payment-in-kind-interest earned "for purposes of income statement disclosure and, unlike Form N-PORT, we are not amending Regulation S-X to differentiate income from different types of in-kind payments.[734]

We proposed 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.[735] Likewise, we proposed similar changes to proposed rule 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

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[732] *See, e.g.*, AICPA Comment Letter; and PwC Comment Letter; *see also supra* section 0.

[733] *See supra* section 0; *see also* Item C.9.e of Form N-PORT.

[734] *See* rule 6-07.1 of Regulation S-X. Commenters specifically requested that we not require separate disclosures for amortization and accretion as it is unnecessary because shareholders generally do not distinguish between cash interest income and income in the form of accretion or amortization. *See, e.g.*, PwC Comment Letter; MFS Comment Letter; ICI Comment Letter; AICPA Comment Letter. We agree and are not including a separate disclosure for amortizations and accretions.

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

depreciation of investments to include our new derivatives disclosures.[736] We received no comments on this proposal and are adopting both changes as proposed.[737]

We also proposed to eliminate Regulation S-X's requirement for specific disclosure of written options activity under current rule 6-07.7(c).[738] This provision was adopted prior to FASB adopting disclosures generally applicable to derivatives, including written options, now required by FASB ASC Topic 815.[739] We continue to believe that the requirement for specific disclosures for written options activity should be removed because they are generally duplicative of the requirements of FASB 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.[740] Commenters expressed support for this proposal, which we are adopting.[741]

We proposed 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

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

[737] *See* rules 6-07.7(a) and (c) of Regulation S-X.

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

[739] *See* ASC 815 (Derivatives and Hedging).

[740] *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; and (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.

[741] *See, e.g.,* ICI Comment Letter; BlackRock Comment Letter.

of the period, amount to one percent or less of the value of total investments.[742] We believe that it is appropriate to eliminate this exception, because a fund may have significant notional amounts in its portfolio that could be valued at one percent or less of the value of total investments. Accordingly, removing this exception will provide more transparency to investors regarding a fund's derivatives activity. We received no comments on this proposal, and we are adopting it as proposed.[743]

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

1. Overview

We are adopting a new framework by which registered investment companies will report census-type information to the Commission by rescinding Form N-SAR and replacing it with a new form—Form N-CEN.[744] Most commenters generally supported our proposal to replace Form N-SAR with Form N-CEN, agreeing that Form N-CEN provides both the Commission and the public with enhanced and updated census-type information on a wide range of compliance, risk assessment, and policy related matters.[745] Form N-SAR was adopted by the Commission in 1985 and requires that funds report a variety of census-type 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

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[742] *See* current 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.

[743] We also made several technical, non-substantive changes to the proposed rules. *See* rules 6-03(d) and 6-07 (moved "business development companies" to after "other than face-amount certificates.").

[744] We are rescinding Form N-SAR and replacing it with a new census reporting form, Form N-CEN, rather than amending 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). We have modified the numbering convention for items within Form N-CEN to be consistent with that of the numbering conventions of other forms (*e.g.*, Forms N-MFP and N-PORT).

[745] *See, e.g.*, SIFMA Comment Letter I; ICI Comment Letter; Invesco Comment Letter; Morningstar Comment Letter; BlackRock Comment Letter.

generally must file reports on Form N-SAR semi-annually, except for UITs, which file annually.[746] By contrast, as discussed further below, all funds will now file reports on Form N-CEN annually.[747]

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. We believe that by updating the content and format requirements for census reporting through new Form N-CEN, the Commission will be better able to carry out its regulatory functions while at the same time reducing burdens on filers.

Many commenters agreed that Form N-SAR is outdated and commended the Commission's efforts to improve the relevance of information reported to the Commission.[748] Commenters generally supported Form N-CEN as proposed, and we are adopting the form substantially as proposed with some modifications to address specific issues raised by commenters, as discussed in more detail below.

Form N-CEN gathers similar census information about the fund industry that funds currently report on Form N-SAR, which will be able to be aggregated and analyzed by Commission staff to better understand industry trends, inform policy, and assist with the

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[746] *See* current rule 30b1-1 and current rule 30a-1.

[747] *See* rule 30a-1.

[748] *See, e.g.*, ICI Comment Letter; SIFMA Comment Letter I; Invesco Comment Letter; BlackRock Comment Letter.

Commission's examination program. To improve the quality and utility of information reported, Form N-CEN streamlines and updates information reported to the Commission to reflect current Commission staff information needs and developments in the industry.[749] Where possible, we have endeavored to exclude items from Form N-CEN that are disclosed or reported pursuant to other Commission forms, or are otherwise available; however, in some limited cases, we are collecting information on Form N-CEN 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 requiring that reports on Form N-CEN be structured in an XML format.[750] Under this format, filers will no longer be required to use outdated technology for census reporting. Additionally, the XML structured format will allow reported information to be more efficiently and effectively validated, aggregated, compared, and analyzed through automated means and, therefore, more useful to end users.

One commenter expressed support for the XML format.[751] As discussed above in connection with Form N-PORT, certain others generally advocated for XBRL, a tagged system that is based on XML and was created specifically for the purpose of reporting financial and

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[749] We are streamlining 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.*, 0 and 0 of 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.

[750] 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 using an outdated filing application.

[751] Morningstar Comment Letter (noting that the format will provide more accessible data to the public and reduce the amount of defective reporting currently possible in Form N-SAR).

business information.[752] Another commenter noted that the Commission should standardize the formatting requirements (*i.e.*, ASCII/TXT, HTML, XBRL, XML) across all fund reporting in order to ease the burden on funds that would have to comply with different formatting requirements.[753]

As discussed above in connection with Form N-PORT, 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-CEN in an XML format will provide the information that we seek in an appropriate manner.[754] Moreover, the interoperability of data between Forms N-MFP, PF, N-PORT, and N-CEN will aid the staff with cross-checking information reported to the Commission and in monitoring the fund industry.[755] As discussed further below in the economic analysis, the XML format will also improve the quality of the information disclosed by imposing constraints on how the information will be provided and by providing a built-in validation framework of the data in the reports.[756] We are therefore adopting the requirement that reports on Form N-CEN be filed in an XML format as proposed.

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[752] *See* AICPA Comment Letter; XBRL US Comment Letter; *but see* Morningstar Comment Letter ("Extensible Business Reporting Language has had very limited success, and certain aspects of the standard are too lenient for regular data validation."). *See also supra* footnotes 444–449 and accompanying text.

[753] *See* Schnase Comment Letter (opining that the Commission should also ease the burdens on funds by allowing funds to input their data through a pre-formatted web portal or web form).

[754] *See supra* footnotes 444–449 and accompanying text. Based on our experience with reports on Form N-MFP and other XML-based reports, we anticipate that the XML structured data file will be compatible with a wide range of open source and proprietary information management software applications. Continued advances in structured data software, search engines, and other web-based tools may further enhance the accessibility and usability of the data. *See, e.g.*, Money Market Reform 2010 Release, *supra* footnote 447, at n. 341.

[755] *See* Morningstar Comment Letter.

[756] *See infra* section III.B.

2. Who Must File Reports on Form N-CEN

We are adopting, as proposed, the requirement that all registered investment companies, except face-amount certificate companies,[757] file reports on Form N-CEN.[758] No commenters objected to this requirement.[759] As proposed, funds offering multiple series will 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.[760] One commenter opined that one report covering multiple series would be sufficient as many questions apply to the registrant.[761]

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[757] 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 such businesses and have any such certificates outstanding. *See* section 4(1) of the Investment Company Act. Face-amount certificate companies currently are not required to file reports on Form N-SAR. *See* General Instruction A of Form N-SAR. Face-amount certificate companies will continue to file periodic reports pursuant to section 13 [17 CFR 240.13a-1] or section 15(d) of the Exchange Act [17 CFR 240.15d-1].

[758] *See* Proposing Release, *supra* footnote 7, at section II.E.2. *See also* rule 30a-1. Consistent with Form N-SAR, BDCs, which are not registered investment companies, will not be required to file reports on Form N-CEN.

[759] *See* Morningstar Comment Letter (noting that the filing requirement is appropriate, but also suggesting that the Commission allow flexibility on how a fund chooses to report the data, including filing at the CIK-level with separate "nodes" for each series ID and designing the data base that is to house this information using the filing data and CIK as a key for each registrant-level data record).

[760] General Instruction 0 of Form N-CEN. Unlike Form N-PORT where separate reports will be filed for each series, registrants will file one report on Form N-CEN covering all series (as is currently done with reports on Form N-SAR). We are adopting this framework for Form N-CEN to help minimize reporting burdens, as much of the information that will be required by Form N-CEN (for example, the information reported pursuant to Part A and Part B) will 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 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, to limit the reporting of repetitive information, Form N-CEN is organized such that information that is generally 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.

[761] *See* State Street Comment Letter.

Like Form N-SAR, the sections of Form N-CEN that a fund is required to complete will depend on the type of registrant in order to better tailor the reporting requirements.[762] As was proposed, all funds will be required to complete Parts A and B, and file any attachments required under Part G. In addition, funds will be required to complete the following Parts as applicable:

- All management companies, other than SBICs, will complete Part C;
- Closed-end funds and SBICs will complete Part D;
- ETFs (including those that are UITs) will complete Part E;[763] and
- UITs will complete Part F.[764]

3. Frequency of Reporting and Filing Deadline

Management investment companies currently file reports on Form N-SAR semi-annually,[765] and UITs file such reports annually.[766] To reduce reporting burdens, we proposed that reports on Form N-CEN be filed on an annual basis, regardless of type of filer.[767] While one commenter suggested semi-annual reporting on Form N-CEN if certain additional requirements

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[762] *See* General Instruction 0 of Form N-CEN. As reflected in General Instruction 0, registrants will be required to respond to each item in each required Part. To the extent an item in a required Part is inapplicable to a registrant, the registrant should respond "N/A" to that item. Registrants will not, however, have to provide responses to items in Parts they are not required to respond to.

[763] *See id.* Certain investment products known as "exchange-traded managed funds" will also be required to complete Part E of Form N-CEN.

[764] *See id.* Management companies that are registered on Form N-3 are also required to complete certain items in Part F as directed by 0 of Form N-CEN. *See* General Instruction 0 of Form N-CEN.

[765] *See* current rule 30b1-1.

[766] *See* current rule 30a-1.

[767] *See* Proposing Release, *supra* footnote 7, at 33634.

were to be included,[768] most commenters generally supported the annual filing requirement.[769] Because Form N-CEN requires census-type information, which in our experience does not change as frequently as, for example, portfolio holdings information, we continue to believe that an annual filing requirement will be sufficient for purposes of review by Commission staff, as well as investors and other market participants that might use this information.[770] We are, therefore, adopting as proposed the requirement that reports on Form N-CEN be filed on an annual basis.[771]

We proposed that for all funds, the reporting period for Form N-CEN reports would be based on the fund's fiscal year.[772] Currently, management companies file Form N-SAR reports on a fiscal year basis,[773] while UITs file Form N-SAR reports on a calendar year basis.[774] After further consideration, we have determined to require that management companies and UITs include in Form N-CEN reports information from the same time period as they currently report on Form N-SAR because we believe that calendar-year reporting for UITs will yield more

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[768] *See* Morningstar Comment Letter (suggesting semi-annual reporting as of the fund's fiscal year end should the Commission decide to include Items 34–44, Items 47–52, Item 54, Item 72, and Item 75 of Form N-SAR, as suggested). *See infra* section 0 concerning these current Form N-SAR Items.

[769] *See, e.g.*, Carol Singer Comment Letter; State Street Comment Letter; Wells Fargo Comment Letter.

[770] 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 are included on 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 will be reported on 0 of Form N-PORT.

[771] Because Form N-CEN is to be filed annually by all registered investment companies, we are rescinding 17 CFR 270.30b1-1 and revising 17 CFR 270.30a-1 to require all registered investment companies to file reports on Form N-CEN, as proposed. *See infra* section 0 (concerning technical and conforming amendments related to current rule 30b1-1 and current rule 30a-1). *See* rule 30a-1.

[772] *See* Proposing Release, *supra* footnote 7, at 33634.

[773] *See* current rule 30b1-1.

[774] *See* current rule 30a-1.

comparable data while also reducing costs for reporting UITs.[775] One commenter expressed support for reporting by funds on a fiscal year basis, as that would permit comparisons by data users between information reported on Form N-CEN and information on Form N-CSR.[776] As regards management investment companies, which are required to file reports on Form N-CSR, we agree that fiscal year reporting could have this beneficial effect, though the same would not be true of UITs. Therefore, under the final rule, management companies will file reports on Form N-CEN on a fiscal year basis while UITs will file such reports on a calendar year basis.[777]

We have also added an instruction to the form to clarify that management investment companies that offer multiple series with different fiscal year ends must file a report as of each fiscal year end that responds to (i) Parts A, B, and G, and (ii) Part C and, if applicable, Part E as to only those series with the fiscal year end covered by the report.[778] UITs that offer multiple series will file a single annual report covering all series as of the end of the calendar year.

Additionally, we received a number of comments on the proposed 60-day filing period. Some commenters supported this proposed filing period.[779] Several other commenters, however,

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[775] In particular, we note that the items relating to UITs in Part F require reporting of aggregate information across all series of the UIT (as distinct from Part C, which requires series-specific information in the case of management companies offering multiple series). As proposed, UITs with multiple series with different fiscal year end dates would have been required to file more than once per year, at least once for each unique date. Considering that the reported information itself relates to the entire UIT and not each individual series, we have determined, after further consideration, that it would be less costly for UITs to report once per year, even if their series have different fiscal years. Moreover, we believe that the resulting data will be more useful to the Commission and other data users because the reported information will be as of a consistent date across UITs, and therefore more readily compared and contrasted. Accordingly, we are requiring UITs to file Form N-CEN reports on a calendar year basis even where the UIT offers multiple series with different fiscal years.

[776] *See* Morningstar Comment Letter.

[777] *See* rule 30a-1.

[778] *See* General Instruction 0 of Form N-CEN.

[779] *See* Carol Singer Comment Letter; State Street Comment Letter.

requested that the filing period be extended to at least a 75-day period, arguing, among other things, that a longer time period would help stagger the filing deadline from other end-of-month filing requirements and allow sufficient time to address accounting-related questions.[780]

We have been persuaded by these comments and are adopting a filing period of 75 days after the fiscal year-end (for management companies) and calendar year-end (for UITs). We believe that a 75-day filing period appropriately balances 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. Furthermore, the census-type information reported on Form N-CEN, in our experience, does not change frequently, thereby reducing the risk that a longer filing period would cause the information provided to become stale.

Current rule 30b1-3 under the Investment Company Act requires a fund to file a transition report on Form N-SAR when a fund's fiscal year changes.[781] Because reports on Form N-CEN are required to be filed annually rather semi-annually, we believe that a rule outlining the requirements for a transition report will 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 rescinding rule 30b1-3 as proposed. We received no comments on this aspect of the proposal. To ensure, however, that reports are filed at least annually, we are requiring that reports on Form N-CEN not cover a

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[780] *See, e.g.*, Comment Letter of The Committee of Annuity Insurers (Aug. 11, 2015) ("CAI Comment Letter") (75 days after fiscal year end); ICI Comment Letter (at least 75 days); Invesco Comment Letter (75 days after fiscal year end); MFS Comment Letter (75 days after fiscal year end, at least for initial filing for all funds in the fund complex); T. Rowe Price Comment Letter (75 days after fiscal year end).

[781] *See* current rule 30b1-3; *see also infra* section 0 concerning technical and conforming amendments to current rule 30b1-3.

period of more than 12 months as proposed.[782] Thus, if a fund changes its fiscal year, a report filed on Form N-CEN may cover a period shorter than 12 months, but may not cover a period longer than 12 months or a period that overlaps with a period covered by a previously filed report.[783] We received no comments on this aspect of the proposal.

As proposed, a fund would be able to file an amendment to a previously filed report on Form N-CEN at any time, including an amendment to correct a mistake or error in a previously filed report.[784] A fund that files an amendment to a previously filed report on the form should provide information in response to all items of Form N-CEN, regardless of why the amendment is filed.[785] Commenters did not object to these proposed requirements although one commenter suggested that an amendment should not be required for any subsequent changes to previously reported information and that, except for any material errors, any subsequent changes should be reported in the next filing period.[786] We are adopting these requirements as proposed.[787] Although funds generally should correct a material mistake in a Form N-CEN report by filing an amendment to that report, Form N-CEN does not generally require registrants to file amendments in order to update information throughout the year. Rather, changes in information during the course of the year would be reflected in the fund's next report on the form.

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[782] *See* General Instruction 0 of Form N-CEN.

[783] *Id*.

[784] *See* General Instruction E of proposed Form N-CEN.

[785] *Id*.

[786] *See* State Street Comment Letter.

[787] *See* General Instruction 0 of Form N-CEN.

Similar to Form N-PORT,[788] Form N-CEN also includes general filing instructions,[789] as well as definitions of specific terms referenced in the form.[790] As discussed in connection with Form N-PORT above, we have eliminated proposed instructions regarding the signature and filing of reports,[791] because we believe that the general rules and regulations applicable under the Act provide sufficient guidance regarding those issues.[792] As discussed further below, we have also revised, consistent with the changes to Form N-PORT discussed above, the definitions of "Exchange-Traded Fund" and "Exchange-Traded Managed Funds" to clarify that the terms would apply to a series or class of a UIT organized as an ETF or ETMF.[793] We have also revised, as we did in Form N-PORT, the definition of "LEI" to reflect new terminology regarding LEIs.[794]

4. Information Required on Form N-CEN

a. Part A — General Information

We are adopting, as proposed, Part A of Form N-CEN. We did not receive comments on Part A. Part A, which will be completed by all funds, will collect information about the

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[788] *See supra* section 0 regarding Form N-PORT.

[789] *See* General Instruction 0 of Form N-CEN.

[790] *See* General Instruction 0 of Form N-CEN.

[791] General Instruction E of proposed Form N-CEN.

[792] *See* General Instruction 0 to Form N-CEN ("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.").

[793] General Instruction 0 of Form N-CEN. *See supra* footnotes 93–94 and accompanying text; *infra* footnote 896 and accompanying text.

[794] *See supra* footnote 95 and accompanying text. Form N-CEN's revised definition of "LEI" refers to the legal entity identifier "endorsed" by LEI ROC or "accredited" by GLEIF, as opposed to "assigned or recognized" by those two entities. General Instruction 0 to Form N-CEN.

reporting period covered by the report. It requires funds to report the fiscal-year end date and indicate if the report covers a period of less than 12 months.[795]

b. Part B — Information About the Registrant

We proposed a number of reporting items under Part B of Form N-CEN to provide information about the registrant. Although commenters did not raise broad objections to the reporting requirements under Part B, many commenters raised concerns with and/or requested clarification on specific reporting items. We are adopting Part B substantially as proposed with some modifications in response to comments on specific reporting items. Where we have received comments on specific reporting requirements, we discuss them in more detail below.

As proposed, Part B of Form N-CEN would have been required to have been completed by all funds and would have required certain background and other identifying information about the funds. Part B of Form N-CEN, as proposed, would have included an instruction that required funds offering multiple series to provide a response for each series when the response to an item in Part B of the form differed between series, and to label the response with the name and series identification number of the series to which a response relates.[796] In order to provide more clarity to filers as to when series information is required in Part B of the form, we have removed the proposed instruction to Part B and have instead added sub-items requesting series information, when applicable, for certain items in Part B of the form. We have added these sub-items to the items in Part B where we believe identification of the particular series would be

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[795] *See* 0 of Form N-CEN.

[796] *See* Instruction to Part B of proposed Form N-CEN.

most helpful to our monitoring efforts and general review and analysis of the information reported on the form.[797]

As proposed, Part B of the form requires certain background and other identifying information about the fund. This background information will allow the staff to categorize filers by fund type and will assist with our oversight of funds. Included in this background information is the fund's name,[798] Investment Company Act filing number,[799] and other identifying information, such as its CIK[800] and LEI,[801] each of which we are adopting as proposed. In addition, we are adopting as proposed the requirement that the report include the fund's address, telephone number, and public website (if any),[802] and the location of the fund's books and records.[803] While the fund's name, address, telephone number, and filing number are currently required by Form N-SAR,[804] some of the additional information, such as the fund's CIK, LEI, public website and location of books and records are new. As discussed in the proposal and the Form N-PORT section above, information such as the CIK and LEI will assist the Commission and other data users with organizing the data and allow the data reported on

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[797] *See* 0, 0, 0, 0, 0, 0, and 0 of Form N-CEN. We note that, with respect to those items in Part B that do not include sub-items for series information, a registrant may still provide more than one response to the item (where applicable), but the response will not be required to indicate the relevant series to which it relates.

[798] 0 of Form N-CEN.

[799] 0 of Form N-CEN.

[800] 0 of Form N-CEN. Because UITs that register on Form N-8B-2 obtain CIKs for the UIT itself as well as for series offered by the UIT, we have made a clarifying modification to Form N-CEN by including a requirement in Part F of the form that such UITs also report the CIKs for each of their existing series. *See* 0 of Form N-CEN.

[801] 0 of Form N-CEN.

[802] 0 of Form N-CEN.

[803] 0 of Form N-CEN; *see also infra* footnotes 807–809 and accompanying text.

[804] Item 1 and Item 2 of Form N-SAR.

Form N-CEN to be cross-referenced with data received from other sources.[805] For tracking purposes, Form N-CEN also requires information relating to whether the filing is the initial or final filing.[806]

We are adopting, as proposed, the requirement that funds include the location of their books and records in reports on Form N-CEN. We note that books and records information is currently required by fund registration forms;[807] however, this information is not filed with the Commission in a structured format. We believe that having books and records information in a structured format will increase our efficiency in preparing for exams and, thus, we have determined to include this information in Form N-CEN.[808] In addition, so as not to create unnecessary burdens, we are adopting proposed amendments to 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 Form N-CEN.[809]

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[805] *See supra* section 0 (discussing additional information such as CIK and LEI and comment letters received regarding the use of identifiers).

[806] 0 of Form N-CEN. As proposed, the instruction to Item B.4—then numbered as "Item 5"—stated that a fund should indicate that a filing is its final filing on Form N-CEN only if the fund has filed an application to deregister on Form N-8F "or otherwise." We believe it would be useful to filers for the instruction to provide more context as to what should be considered "or otherwise." Therefore, the final Form clarifies that a fund should indicate that a filing on Form N-CEN is its final filing "only if the Registrant has filed an application to deregister or will file an application to deregister before its next required filing on this form." We note that even if a fund indicates a filing is its final filing on Form N-CEN, a fund is required to file reports on Form N-CEN until it is deregistered.

[807] *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.

[808] 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 current.

[809] Funds that have not yet filed a report on Form N-CEN will have to continue to include this information in their registration statement filings.

Similar to Form N-SAR,[810] Form N-CEN requires information regarding whether the fund is part of a "family of investment companies."[811] The form, which includes a substantially similar definition as Form N-SAR,[812] defines 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 related companies for purposes of investment and investor services.[813] This item will assist Commission staff with analyzing multiple funds across the same family of investment companies. One commenter suggested that a broader term such as "fund complex" would be a beneficial alternative to the proposed term "family of investment companies."[814] We believe, however, that "fund complex," as such term is defined for purposes of Form N-1A, for example, could be overly broad (*e.g.*, could unintentionally incorporate unaffiliated sub-advisers), and thus, we have determined to adopt the item as proposed.[815]

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[810] Item 19, Item 94, and Item 116 of Form N-SAR; s*ee also* General Instruction H to Form N-SAR (defining "family of investment companies").

[811] 0 of Form N-CEN.

[812] *See id.*; *see also* Instruction 1 to Item 17 of Form N-1A.

[813] Instruction to 0 of Form N-CEN. The instruction, like the definition of "family of investment companies" in Form N-SAR, also clarifies 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.

[814] *See* Morningstar Comment Letter.

[815] *See* Instruction 1(b) to Item 17 of Form N-1A (defining "fund complex" to mean two or more registered investment companies that: (1) hold themselves out to investors as related companies for purposes of investment and investor services; or (2) have a common investment adviser or have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies).

We are adopting, as proposed, a requirement in Form N-CEN that the fund provide its classification (*e.g.*, open-end fund, closed-end fund), similar to Form N-SAR.[816] Unlike the requirements of Form N-SAR, however, we are also adopting, as proposed, a requirement in Form N-CEN that specifically asks whether the fund issues a class of securities registered under the Securities Act.[817] 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).

We are also adopting, as proposed, the requirement in Form N-CEN that a management company 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 which they serve as a director.[818] Some commenters supported inclusion of such information[819] and one commenter suggested that the Commission request additional information concerning individual directors (and chief compliance officers ("CCOs")), such as length of service, roles certain directors have on the board, and prior experience as fund directors.[820] Another commenter opposed the inclusion of additional disclosure requirements concerning the board or

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816 0 of Form N-CEN; *see also* Item 5, Item 6, Item 27, Item 58, Item 59 and Item 117 of Form N-SAR. If the registrant is an open-end fund, Form N-CEN also requires information on the total number of series of the registrant and, if a series of the registrant with a fiscal year end covered by the report was terminated during the reporting period, information regarding that series. *See* 0–0 of Form N-CEN. In addition, registrants that indicate they are management companies registered on Form N-3 are directed by 0 to respond to certain additional items in Part F of the form that relate to insurance company separate accounts. *See* 0 of Form N-CEN.

817 0 of Form N-CEN.

818 0 of Form N-CEN.

819 *See* Franco Comment Letter; Morningstar Comment Letter.

820 Morningstar Comment Letter.

individual directors beyond those in the proposed form without a prior statement of regulatory purpose and opportunity for public comment.[821] We have determined to adopt these requirements as proposed because we believe it appropriately balances the need for director information in a structured format with efforts to minimize the partially duplicative reporting requirements.[822]

However, in a modification from the proposal, we have determined to add one additional reporting requirement concerning directors. In the Proposing Release, we solicited comment regarding whether Form N-CEN should require any additional information concerning directors. In response, a commenter stated that, as discussed below, the proposed form would require funds to report CRD numbers for CCOs, as applicable, and suggested that data users could more readily analyze particular directors across funds and over time if a unique identifier were

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[821] *See* IDC Comment Letter. It was unclear whether the commenter intended also to express concerns about the proposed requirements concerning directors, in addition to the concerns it expressed about other potential requirements concerning directors. *Id.* ("First, the Release asks about the information regarding fund directors that is proposed to be included in Form N-CEN, which includes each director's name, whether they are an "interested person" and the Investment Company Act file number of any other fund for which they serve as a director. Specifically, the Release asks whether funds should be required to include on Form N-CEN any additional information concerning the board or individual directors, such as information about the length of service of directors. The Release does not discuss why the Commission might be interested in this or other possible director-related information or how it would be used. Absent a clear statement of how information about directors would assist the Commission in carrying out its regulatory functions, and the opportunity to comment on any such information, we do not support adding it to Form N-CEN.") To the extent that the commenter was commenting on the proposed requirements, we note, as we did in the Proposing Release, that although the 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 data users to sort and analyze the data more efficiently. *See* Proposing Release, *supra* footnote 7, at 33636.

[822] This information (along with additional director information) is also disclosed in a management company's Statement of Additional Information and its annual report to shareholders, albeit in an HTML or ASCII, rather than structured, format. *See, e.g.*, Item 17 and Item 27(b)(5) of Form N-1A (requiring, for example, disclosures regarding length of service, position(s) held with the fund, and other directorships held by the director).

reported for each director.[823] We acknowledge that not all fund directors have associated CRD numbers, but we are persuaded by the commenter that, for those that do, reporting of the CRD number would improve data comparability and help us in our risk assessment and examination functions by making it easier for Commission staff to identify persons and collect information across funds.[824]

In addition, as proposed, a fund will be required to provide the CCO's name, CRD number (if any), address, and phone number,[825] as well as indicate if the CCO has changed since the last filing.[826] 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 will also be required to report the name and IRS Employer Identification Number of the person providing such compensation.[827] One commenter objected to this reporting requirement stating that the information is already provided in other Commission filings.[828] As we stated in the Proposing Release, we recognize that some funds provide this information in their registration statements. However, as we also noted, not all funds do[829] and we believe that this requirement will provide

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823 *See* Morningstar Comment Letter; *infra* notes 825–833 and accompanying text.

824 0 of Form N-CEN.

825 0 of Form N-CEN. Because we expect that funds will provide the CCO's direct phone number in response to this information request, the CCO's phone number will not be made publicly available in Form N-CEN filings on EDGAR. *See* General Instruction 0 to Form N-CEN.

826 0 of Form N-CEN.

827 0 of Form N-CEN. We proposed to require funds provide the name and "Employee Identification Number" of the person providing compensation for CCO services (Proposing Release, *supra* footnote 7, at n. 409 and accompanying text). We are adopting a reference to "IRS Employer Identification Number" to conform with Form ADV (*see, e.g.*, Item 7 of Schedule A of Form ADV).

828 *See* Schnase Comment Letter.

829 *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

staff with information on all fund CCOs and will allow the staff to contact a fund's CCO directly.

One commenter suggested that the Commission require additional information concerning CCOs, such as "length of service and prior experience in order to aid in assessing the caliber of a fund or a fund company's regulatory practices."[830] We believe, however, that the reporting requirement as proposed and adopted is sufficient for our regulatory oversight purposes and appropriately balances the benefits of additional information for Form N-CEN data users against the burdens imposed upon filers. Specifically, because Commission data users could link Form N-CEN information about CCOs across filings, over time, using the required CRD number, the reporting requirements that we are adopting today will still allow users to inform themselves about a CCO's length of service without adding another reporting requirement.[831] Another commenter expressed support for the CCO reporting requirement but suggested that the item should also require the fund to report the name of the investment adviser's CCO as well.[832] We are not adopting this suggestion because Form N-CEN is designed to collect census-type information, including certain corporate governance information, about funds—not similar information about investment advisers. Investment advisers are currently required to report the name and contact information of the adviser's CCO on Form ADV, which facilitates the ability of the Commission to link fund and investment adviser CCO data without imposing an additional

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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.

830 Morningstar Comment Letter.

831 The same commenter stated that the required CRD numbers should be sufficiently specific to analyze the information over time. *See id.*

832 *See* Franco Comment Letter.

reporting burden on funds.[833] Accordingly, we believe that the item requirement as proposed is appropriate and are adopting it without any changes.

We are also adopting, substantially as proposed, the requirement in Part B that funds report matters that have been submitted to a vote of security holders during the relevant period.[834] 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.[835] In order to alleviate the burden on filers, we are reducing 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.[836]

Form N-CEN, like Form N-SAR, will also include an item relating to material legal proceedings during the reporting period.[837] One commenter suggested that the Commission

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833 *See, e.g.*, Item 1.J of Part 1A of Form ADV.

834 *See* 0 of Form N-CEN. We have added an instruction to the item to clarify that registrants registered on Forms N-3, N-4 or N-6, should respond "yes" to the item only if security holder votes were solicited on contract-level matters.

835 *See* Item 77.C of Form N-SAR; *see also* Instruction to Specific Items for Item 77C of N-SAR.

836 *See, e.g.*, rule 30e-1(b) under the Investment Company Act (requiring management companies to include in shareholder reports certain information relating to matters submitted to a vote of shareholders through the solicitation of proxies or otherwise) [17 CFR 270.30e-1(b)]. The information request in Form N-CEN applies to UITs as well as management companies. The Form N-SAR requirement applies only to management companies (*see* Item 77.C of Form N-SAR; *see also* Instruction to Specific Items for Item 77C of Form N-SAR). 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.

837 0 of Form N-CEN. As in Item 77.E of Form N-SAR, if there were any material legal proceedings, or if a proceeding previously reported had been terminated, the registrant will file an attachment as required by Part G of Form N-CEN. *See* 0 of Form N-CEN. We note that Form N-CEN, unlike Form N-SAR, will 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* footnotes 834–836 and accompanying text.

define legal proceedings for purposes of Form N-CEN.[838] The relevant item includes an instruction highlighting certain proceedings that should be described in response to the item[839] and the item itself only requests information on "material legal proceedings, other than routine litigation incidental to the business." We believe the instruction and language of the item appropriately describes the legal proceedings funds should include when responding to this item. Another commenter suggested that the Commission state that derivative suits reported in response to this item are deemed to satisfy the requirements under section 33 of the Investment Company Act for filing pleadings and other documents in connection with that type of lawsuit.[840] Section 33 requires every fund which is a party and every affiliated person of such fund who is a party defendant to any action or claim by a fund or a security holder thereof in a derivative capacity or representative capacity against certain persons to file certain documents related to the action or claim with the Commission.[841] We do not believe that reporting pursuant to this requirement, taken alone, would be an appropriate alternative for a fund to use to satisfy the legal proceeding filing requirements under section 33, as Form N-CEN requires only a brief description of the proceeding (as well as the case or docket number (if any) and names of the principal parties to the proceeding) and does not itself require the filing of all materials plainly

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838 *See* State Street Comment Letter.

839 *See* Instruction to 0 of Form N-CEN, which states, "[f]or 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."

840 *See* Schnase Comment Letter.

841 Section 33 of the Investment Company Act.

required by section 33.[842] Moreover, for data users interested in the materials required to be filed under section 33, the reporting required by Form N-CEN would not be the same as, nor in many cases a suitable substitute for, the materials themselves. Accordingly, we are adopting the reporting item as proposed.

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.[843] As proposed, we are limiting this request to two separate items in Form N-CEN in order to limit the number of items to those most useful to the Commission staff and reduce burdens on filers.

One item requires funds to report if any claims were filed under the management company's fidelity bond and the aggregate dollar amount of any such claims.[844] One commenter requested that we eliminate the item requesting fidelity bond information, stating that the information is already provided elsewhere by funds.[845] The other item requires registrants to report 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.[846] The staff appreciates that some of this information may be disclosed in other filings with the Commission, although it is

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[842] We note that the commenter did not explain how reporting pursuant to this requirement, taken alone, would be consistent with the requirements of section 33.

[843] Items 80–85 and Items 105–110 of Form N-SAR.

[844] 0 of Form N-CEN; *cf.* Item 83 of Form N-SAR.

[845] *See* Schnase Comment Letter (referring to fidelity bond disclosures submitted on Edgar Form 40-17G and Form 40-17G/A (for amendments)).

[846] 0 of Form N-CEN; *cf.* Item 85 of Form N-SAR.

not reported in a structured data format.[847] We continue to believe that having responses to these questions in a structured data format 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. Accordingly, we are adopting these reporting requirements as proposed.

In order to better understand instances when funds receive financial support from an affiliated entity, we are adopting, substantially as proposed but with a modification that is designed to address a commenter's suggestion, a new requirement for information regarding the provision of such financial support.[848] We 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, reporting, among other things, the receipt of financial support.[849] As with money market funds, we believe that it is important that the Commission understand the nature and extent to which a fund's sponsor provides financial support to a fund. Therefore, we are extending this requirement to all funds that will file reports on Form N-CEN. As we stated in the Proposing Release, although we believe it is an infrequent practice, based on staff experience, non-money market funds have received sponsor support in the past and we believe this item will allow Commission staff to readily identify any funds that have received such support for further analysis and review, as appropriate.

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[847] 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(a)].

[848] 0 of Form N-CEN.

[849] *See* Money Market Fund Reform 2014 Release, *supra* footnote 33.

One commenter suggested that, for purposes of Form N-CEN, the instruction concerning the definition of "financial support" provide additional guidance concerning exclusions from the definition. The proposed instruction regarding the definition of "financial support" provided for certain of the exclusions suggested by the commenter, such as for routine waiver of fees or reimbursement of fund expenses and routine inter-fund lending.[850] We continue to think that the proposed exclusions are appropriate, and we are adopting those exclusions today.[851] However, the commenter also suggested specifying that the purchase of a defaulted or devalued security would constitute "financial support" only when it is intended to increase or stabilize the value or liquidity of the fund's portfolio.[852] We agree with the commenter that purchases of a defaulted or devalued security at fair value need only be characterized as "financial support" for purposes of Form N-CEN if they are intended to increase or stabilize the value or liquidity of the fund's portfolio, and, accordingly, have modified the instruction in this manner.[853] In addition, and as proposed, if a fund other than a money market fund received financial support, it will also be required to provide more detailed information in the form of an attachment as required by Part G of Form N-CEN.[854]

We are also adopting, as proposed, an item in Form N-CEN 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

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850 *See* Dechert Comment Letter; Instruction to Item 15 of proposed Form N-CEN.

851 *See* Instruction to 0 of Form N-CEN.

852 *See* Dechert Comment Letter.

853 *See* Instruction to 0 of Form N-CEN.

854 0 of Form N-CEN. Money market funds currently provide this information through reports on Form N-CR. However, all funds, including money market funds, will be required to respond "yes" or "no" to Item B.14 of Form N-CEN.

during the reporting period.[855] Funds are required to identify any such order by release number.[856] Collecting this information in a structured format will assist us with our oversight functions and improve our ability to monitor fund reliance on exemptive orders.

One commenter expressed support for this new reporting requirement, including the reporting of release numbers applicable to such exemptive orders.[857] The commenter suggested, however, that in addition to release numbers, the form include the classification or category of the exemptive order in relation to the Commission's Investment Company Act Notices and Orders Category Listing webpage[858] and similar reporting requirements for a fund's reliance on staff no-action letters.[859] We have determined to adopt the reporting item as proposed. We believe that reporting requirements regarding reliance on no-action letters may impose additional administrative costs on filers. Therefore, we believe that the requested information as proposed balances the Commission's need for information to monitor a fund's regulatory compliance with the costs imposed on registrants reporting this information.

As proposed, Form N-CEN, similar to Form N-SAR,[860] will require identifying information for the fund's principal underwriters[861] and independent public accountants,[862]

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[855] 0 of Form N-CEN. If any actions were taken during the reporting period, which were required to be reported on Form N-1Q pursuant to an exemptive order, Form N-SAR requires that information be reported in response to Sub-Item 77P of Form N-SAR. *See* Instructions to Sub-Items 77P and 102O of Form N-SAR. Form N-CEN requires 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 0 to 0 of Form N-CEN.

[856] *See* 0 of Form N-CEN.

[857] *See* Morningstar Comment Letter.

[858] Investment Company Act Notices and Orders Category Listing webpage is available at: https://www.sec.gov/rules/icreleases.shtml.

[859] *See* Morningstar Comment Letter.

[860] Item 11, Item 13, Item 77.K, Item 91, Item 102.J, Item 114, and Item 115 of Form N-SAR.

[861] Item 17 of proposed Form N-CEN.

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.[863] We are adopting these requirements as proposed.

If the independent public accountant changed since the last filing, under the proposal, the fund would also have been required to provide a detailed narrative attachment to Form N-CEN similar to the exhibit in Form N-SAR reporting a change in independent registered public accountants, along with the predecessor accountant's letter reporting the change in independent registered public accountants also required to be reported on Form N-SAR.[864]

Some commenters expressed concern that because Form N-CEN would be an annual reporting form, rather than a semi-annual reporting form like Form N-SAR, the exhibit may be filed a significant amount of time after an accountant had changed.[865] Commenters instead suggested that the proposed attachment be filed by funds with their semi-annual Form N-CSR filings.[866] We are persuaded by these concerns, and are modifying the requirement by moving the change in independent public accountant attachment from Form N-CEN to Form N-CSR as a

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862 Item 18 of proposed Form N-CEN.

863 Item 17.b and Item 18.f of proposed Form N-CEN, respectively.

864 Item 79.a.iii of proposed Form N-CEN.

865 *See* AICPA Comment Letter; and PwC Comment Letter (noting that Item 27(c)(4) of Form N-1A and Item 24, Instruction 5, of Form N-2 both require that the management statement required under Item 4.01 of Form 8-K be presented in both semi-annual and annual shareholder reports. Thus, for any change in accountants occurring in the first six months of a registrant's fiscal year, management's statement regarding a change in accountants would be required to be issued and filed publicly in the fund's semi-annual shareholder report while the predecessor accountant's letter reported semi-annually on former Form N-SAR would, under the proposal, have been filed in Form N-CEN six months later).

866 *See* AICPA Comment Letter; and PwC Comment Letter.

new attachment to reports on that form.[867] We share commenters' concerns that, as proposed, a significant amount of time may lapse before shareholders would be provided the letter reporting a change in independent registered public accountants. We also believe that moving the attachment from Form N-CEN to Form N-CSR will help ensure concurrent review and written agreement by the predecessor accountant of the required management statement in both annual and semi-annual reports, as reports on Form N-CSR are required to be filed no later than 10 days after reports to shareholders are transmitted. Thus, Form N-CEN provides a means to track funds that change accountants in a structured data format on an annual basis, while the accountant's letter regarding the change will become available to the public semi-annually as an exhibit on Form N-CSR.

We also proposed 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. Commenters generally did not object to these proposed reporting requirements,[868] and we are adopting them largely as proposed, with some revisions in response to specific commenter suggestions. These items include a question relating to material changes in the method of valuation of the fund's assets.[869] If there have been material changes in the

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867 *See* Item 12(a)(4) of Form N-CSR.

868 *See, e.g.*, Morningstar Comment Letter.

869 0 of Form N-CEN.

As discussed in the Proposing Release, 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.

method of valuation of assets during the reporting period, Item B.20 requires that the fund report the types of investments involved.

One commenter expressed support for this reporting requirement, noting that the information would be sufficient to conduct due diligence on pricing and valuation issues.[870] This commenter also suggested aligning the type of investments involved with the list of asset types identified in Form N-PORT.[871] After considering the commenter's request, we have added an additional sub-item and clarifying instructions to Item B.20 to require the applicable "asset type" category specified in Item C of Form N-PORT.[872] We believe that requiring responses based on the categories used in Form N-PORT will provide some measure of standardization that will generally assist the staff in its monitoring of changes in valuation methodologies by asset class, and will provide regulatory consistency that will assist Commission staff in its review of information reported pursuant to both forms.

In addition, and as proposed, funds will also be required to provide a brief description of the types of investments involved.[873] However, we have modified the instruction to this sub-Item from the proposal to provide that if the change in methodology relates to a sub-asset type included in the response to Item B.20.c, then funds should report the sub-asset class in

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Unlike Form N-SAR, this requirement will apply to UITs as well as management investment companies. As we noted in the Proposing Release, we believe it is important for the Commission to have information on accounting and valuation for all registered investment companies in order to assist us in our oversight and examination functions.

870 Morningstar Comment Letter.

871 *See id.*

872 *See* 0 of Form N-CEN and related instruction (requiring responses to provide the applicable "asset type" category specified in 0 of Form N-PORT).

873 0 of Form N-CEN.

responding to Item B.20.d.[874] This modification is intended to avoid duplicative responses to Item B.20.c and Item B.20.d by eliciting more specific information as to any sub-asset classes contained in the broader Form N-PORT asset categories that are impacted by the change of valuation methodologies. Unlike reports on Form N-SAR, Form N-CEN does not require a separate attachment detailing the circumstances surrounding a change in valuation methods.[875] Instead, to facilitate review of this information in a structured format, Form N-CEN includes 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.[876] Also as proposed, Form N-CEN carries forward the requirement from Form N-SAR[877] 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.[878]

We are also adopting, largely as proposed, a requirement in Form N-CEN that management companies other than SBICs, file a copy of their independent public accountant's

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[874] *See* Instruction to 0 of Form N-CEN. Thus, if a fund changed its valuation methodologies with respect to municipal securities, the fund would report "debt' in response to 0 and "municipal securities" in response to 0.

[875] *See* Item 77.J and Item 102.I of Form N-SAR.

[876] *Compare* Item 77.J of Form N-SAR *with* 0 of Form N-CEN. An instruction to 0 of Form N-CEN clarifies 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 contain a similar instruction, but we are including it in Form N-CEN to provide clarity for filers and because we believe that responding to 0 of Form N-CEN for individual securities may be overly burdensome.

[877] *See* Item 77.L and Item 102.K of Form N-SAR.

[878] 0 and 0 of 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 requires this information from UITs as well, for the same reasons as discussed above with respect to changes in valuation methods. *See supra* footnote 869.

report on internal control as an attachment to their reports on the form.[879] To flag instances where a report noted any material weaknesses, Form N-CEN also includes, as proposed, a question that asks whether the report on internal control noted any material weaknesses.[880] In addition, as was proposed, Form N-CEN contains a new requirement that the fund report if the certifying accountant issued an opinion other than an unqualified opinion with respect to its audit of the fund's financial statements.[881] These questions will elicit information on potential accounting issues identified by a fund's accountant.

We are also adopting, largely as proposed, a requirement in Form N-CEN, not contained in Form N-SAR, to indicate 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.[882] One commenter expressed support for additional information related to NAV errors.[883] Another commenter recommended that this item be omitted from Form N-CEN, arguing that the item is not an appropriate reporting item for a census form, would likely engender inquiries and claims from potential litigants, and could be obtained through the Commission's examination

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[879] 0 of Form N-CEN. 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. *See* Item 77.B of 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 carrying over the filing requirement to Form N-CEN.

[880] 0 of Form N-CEN. One commenter suggested that the word "find" in the text of proposed Item 19 be changed to "note," stating that the term "find" could be misinterpreted, creating an "expectation gap" over the nature of the consideration of internal control in an audit of financial statements, particularly for investment companies, which (except for BDCs) are not subject to the integrated audit requirements of the Sarbanes-Oxley Act. *See* PwC Comment Letter. We are persuaded by the commenter's concern and have revised the language of the item from "find" to "note" as recommended.

[881] 0 of Form N-CEN.

[882] 0 of Form N-CEN.

[883] Morningstar Comment Letter.

program.[884] We continue to believe, however, that the item will assist the staff's monitoring efforts and the yes/no reporting structure of the item will be a useful means to flag the occurrence of NAV corrections whereby Commission staff can request further information in connection with staff examinations and other inquiries.[885]

In addition, one commenter requested that we revise the item to ensure that any errors that "exceeded the registrant's threshold for reprocessing" were captured, even if the reprocessing was paid for by a service provider.[886] After consideration of the comment, we agree that this question should capture all incidents of reprocessed shareholder accounts regardless of the source of payment and have revised the item to clarify that a registrant should respond affirmatively if any payments were made to shareholders (*i.e.*, regardless of the source of the payment) or if any shareholder accounts were reprocessed as a result of an error in calculating the registrant's NAV.[887]

As proposed, Form N-CEN also requires 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.[888] These questions will

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884 *See* SIFMA Comment Letter I.

885 Regarding the commenter's concerns regarding potential increased litigation risk or inquiries based on public disclosure, based on our experience, we understand that these types of payments and reprocessing transactions are typically already disclosed to investors through account statements.

886 *See* BlackRock Comment Letter.

887 0 of Form N-CEN.

888 0 of 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. [17 CFR 270.19a-1]; *see also* 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.

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. One commenter stated that there is not currently a consistent method used across funds to determine whether a rule 19a-1 notice is required, and that this inconsistency could limit comparability of the reported data.[889] The commenter suggested that the Commission could increase comparability of the reported data by clarifying the method that should be used to determine whether a 19a-1 notice is required.[890] Although we recognize, as the commenter suggests, that different substantive practices relating to 19a-1 notices could affect the comparability of the reported data, revising the substantive provisions of rule 19a-1 is beyond the intended scope of the requirements of Form N-CEN.

c. Part C — Items Relating to Management Investment Companies

i. Background and Classification of Funds

We proposed a number of reporting items under Part C of Form N-CEN 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 in Part C will 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. We are adopting those reporting items substantially as proposed with some modifications in response to comments. Where we have received comments on specific reporting requirements, we discuss them in more detail below.

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889 *See* State Street Comment Letter.

890 *Id*.

Part C will be completed by management investment companies other than SBICs. As in the proposal, for management companies offering multiple series, the required information will be reported separately as to each series.[891]

Similar to Form N-SAR and as proposed, Form N-CEN includes 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.[892] Unlike Form N-SAR, 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 are required under Form N-CEN.[893] In addition, Form N-CEN includes a requirement (unlike Form N-SAR) to specifically provide identifying information for each share class outstanding, including the name of the class, the class identification number, and ticker symbol.[894]

Form N-CEN also requires—substantially as proposed with some modifications in response to public comment—management companies to identify if they are any of the following types of funds:[895] ETF or exchange-traded managed fund ("ETMF");[896] index fund;[897] fund

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[891] General Instruction 0 to Form N-CEN.

[892] 0 of Form N-CEN; *see also supra* section 0 (discussing the use of LEIs for purposes of Form N-PORT and related comments received regarding the use of LEIs). The 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* Item 3 and Item 7.C of Form N-SAR.

[893] 0–0 of Form N-CEN.

[894] 0 of Form N-CEN.

[895] 0 of Form N-CEN. As discussed herein, many of the types of funds listed in 0 are defined in 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.

[896] 0 of Form N-CEN. As discussed above, we have revised, consistent with the changes to Form N-PORT discussed above, the definitions of "Exchange-Traded Fund" and "Exchange-Traded Managed Funds" to clarify that the definitions would apply to a class or series of a UIT organized as

seeking to achieve performance results that are a multiple of an index or other benchmark, the inverse of an index or other benchmark, or a multiple of the inverse of an index or other benchmark;[898] interval fund;[899] fund of funds;[900] master-feeder fund;[901] money market fund;[902] target date fund;[903] and underlying fund to a variable annuity or variable life insurance contract.

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an ETF or ETMF. *See supra* footnote 793 and accompanying text. Consequently, for purposes of reporting on Form N-CEN, "exchange-traded fund" is defined as an open-end management investment company (or series or class thereof) or UIT (or series thereof), 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. Similarly, "exchange-traded managed fund" is defined as an open-end management investment company (or series or class thereof) or UIT (or series thereof), 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. *See* General Instruction 0 of Form N-CEN. These definitions are substantially identical to the definitions we proposed, however, we have added a parenthetical to each definition to clarify that an ETF or exchange-traded managed fund would include a series of a UIT that meets the rest of the applicable definition. We believe that 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 of 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* footnote 5; Eaton Vance Management, *et al.*, Investment Company Act Release No. 31333 (Nov. 6, 2014) [79 FR 67471 (Nov. 13, 2014)] (Notice); Eaton Vance Management, *et al.*, Investment Company Act Release No. 31361 (Dec. 2, 2014) (Order). The Commission, however, proposed in 2008 to codify the exemptive relief previously granted to ETFs by order. *See* ETF Proposing Release, *supra* footnote 5 (proposing rule 6c-11).

[897] 0 of Form N-CEN.

[898] 0 of Form N-CEN. This item is being modified from the proposed requirement, which would have required a fund to indicate if it 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. The modifications clarify that the benchmark may be an index.

[899] 0 of Form N-CEN.

[900] 0 of Form N-CEN.

[901] 0 of Form N-CEN.

[902] 0 of Form N-CEN.

[903] 0 of Form N-CEN. As in the proposal, for purposes of reporting on Form N-CEN, "target date fund" is defined 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

For purposes of reporting on Form N-CEN, as proposed, "index fund" is defined as an investment company, including an ETF, which seeks to track the performance of a specified index.[904] The definition is largely similar to the definition of "index fund" in rule 2a19-3 under the Investment Company Act, but will capture both broad-based and affiliated indexes.[905] Additionally, we note that the definition is substantially similar to the definition of "index fund" in Form N-SAR, but also takes into account the emergence of ETFs.[906] One commenter expressed support for the proposed definition of index fund, but strongly encouraged that funds using indexes constructed by affiliated service providers be disclosed clearly and that funds disclose whether the index tracked by the fund is exclusively constructed for the fund.[907] We agree with the commenter and are requiring index funds to indicate whether the index whose performance the fund tracks is constructed by an affiliated person of the fund and whether the index is exclusively constructed for the fund.[908] We believe this information will further assist Commission staff in monitoring trends in funds that track these indexes, which often use more complex methodologies that choose constituents by weighing factors other than market capitalization. It also will assist staff in monitoring conflicts of interest that could exist when an

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expectancy. *See* Instruction 0 to 0 of Form N-CEN. This is the same definition as was proposed by the Commission in our 2010 proposing release relating to target date funds. *See* Investment Company Advertising Release, *supra* footnote 6. We note that one commenter suggested that target-date funds should also self-identify whether their glide path is "to" or "through" retirement. *See* Morningstar Comment Letter. We have not made any changes in response to this comment because we believe that the identifying information requested by the form with respect to target-date funds is sufficient for the Commission's purposes.

904 *See* Instruction 0 to 0 of Form N-CEN.

905 *See* rule 2a19-3 under the Investment Company Act [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…").

906 *See* Instruction to Item 69 of Form N-SAR.

907 Morningstar Comment Letter.

908 0 of Form N-CEN.

index is constructed by an affiliated person of the fund or is exclusively constructed for the fund.

As proposed, "interval fund" is defined as a closed-end management company that makes periodic repurchases of its shares pursuant to rule 23c-3 under the Investment Company Act.[909] One commenter suggested that the definition of interval fund should not be limited to closed-end funds, but rather, expanded to other investment companies.[910] We believe, however, that the definition is appropriate as proposed because the term "interval fund" is commonly used to refer to funds that rely on rule 23c-3.[911]

For purposes of reporting on Form N-CEN, we also proposed 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.[912] Some commenters suggested that we revise the definition to exclude funds that invest in money market funds for cash management purposes in excess of the amount permitted under section 12(d)(1)(A) in reliance on rule 12d1-1 of the Investment Company Act.[913] After consideration of these comments, we acknowledge that the definition as proposed would have included a larger universe of funds than we intended for our regulatory purposes. The proposed definition would

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[909] *See* Instruction 0 to 0 of Form N-CEN.

[910] Morningstar Comment Letter (noting that there is one investment company registered on Form N-1A whose redemption parameters are largely similar to an interval fund pursuant to exemptive relief and suggesting that the definition of interval fund be expanded to other investment companies in light of the existence of this fund).

[911] *See* rule 23c-3 under the Investment Company Act [17 CFR 270.23c-3]. We believe that it is more appropriate to maintain the definition of interval fund as a closed-end fund that makes periodic purchases of its shares pursuant to rule 23c-3 as proposed, rather than expand the definition to capture funds that share some similar characteristics with interval funds but operate outside the context of rule 23c-3. For example, we believe that reports on Form N-CEN will appropriately capture an open-end fund that operates with redemption procedures similar to an interval fund pursuant to exemptive relief in response to Item B.15 of Form N-CEN.

[912] *See* 15 U.S.C 80a-12(d)(1)(A); Instruction 0 to Item 27 of proposed Form N-CEN.

[913] Schwab Comment Letter; ICI Comment Letter; MFS Comment Letter.

have yielded data that would have impeded identification of those funds that acquire securities issued by another investment company in excess of the amounts permitted under section 12(d)(1)(A) other than those that do so only for short-term cash management purposes. Therefore, we have revised the instructions to Item C.3 to note that for purposes of the item, the term "fund of funds" does not include a fund that acquires securities issued by another investment company solely in reliance on rule 12d1-1.[914] We received no other comments on the other definitions for fund types.

As proposed, "master-feeder fund" was defined 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.[915] We understand that certain interpretations of this definition could exclude some funds that operate in a master-feeder structure and hold themselves out as master-feeder funds, but for technical reasons must obtain exemptive relief from the Commission rather than rely on section 12(d)(1)(E) to operate in this manner. Accordingly, we have revised the definition of "master-feeder fund" to more clearly include two-tiered arrangements in which one or more funds holds shares of a single fund pursuant to exemptive relief granted by the Commission.[916]

ETFs and ETMFs, index funds, and master-feeder funds are also required to provide additional information under Part C.[917] First, as in the proposal, Form N-CEN requires a

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914 *See* Instruction 0 to 0 of Form N-CEN.

915 *See* Instruction 4 to Item 27 of proposed Form N-CEN.

916 *See* Instruction 4 to Item C.3. of Form N-CEN which defines the term "master-feeder fund" to mean "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)) *or pursuant to exemptive relief granted by the Commission*" (emphasis added).

917 *See* 0, 0, and 0 of Form N-CEN.

management company to further indicate if it is an ETF or an ETMF.[918] Second, as in the proposal, index funds will be required to report certain standard industry calculations of relative performance. In particular, index funds will be required to report a measure of the difference between the index fund's total return during the reporting period[919] and the index's return both before and after fees and expenses—commonly called the "tracking difference" [920] —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."[921] One commenter suggested that tracking difference and tracking error should be reported monthly on Form N-PORT rather than annually on Form N-CEN, because monthly reporting would allow the Commission to receive observations for all index funds for the same time period, and the commenter opined that the additional information would help the Commission be more responsive, particularly in times of market stress.[922] Although we recognize that there may be additional potential benefits of monthly reporting, as the commenter suggests, we continue to believe that annual reporting more

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[918] *See* 0 and 0 of Form N-CEN.

[919] With respect to index funds that are ETFs, we expect a fund to use its NAV-based total return, rather than market-based total return, in responding to 0 and 0 of Form N-CEN.

[920] 0 of Form N-CEN. The tracking difference is the return difference between the fund and the index it is following, annualized. Morningstar ETF Research, Ben Johnson, *et al.*, *On the Right Track: Measuring Tracking Efficiency in ETFs* (Feb. 2013) ("Morningstar Paper") at 29, *available at* http://media.morningstar.com/uk/MEDIA/Research_Paper/Morningstar_Report_Measuring_Tracking_Efficiency_in_ETFs_February_2013.pdf. 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.*

[921] *See* 0 of 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* footnote 920, 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.*

[922] *See* Morningstar Comment Letter (recommending that tracking difference and tracking error be reported on N-PORT with trailing one-year data rather than annually on Form N-CEN).

appropriately balances the usefulness of the reported information to the Commission and other data users with the additional administrative costs that would be associated with a requirement for monthly reporting and the associated recordkeeping necessary to support it. Moreover, we believe that the frequency and timeliness of reports on Form N-CEN are, both generally and specifically with respect to these reporting requirements, sufficient for collecting census-type information, but that reporting of these particular annualized figures on Form N-PORT would not be so timely or so frequent as to advance the purposes the commenter suggested (*viz.*, to respond in periods of market stress), particularly in light of the Form N-PORT 60-day reporting delay.

While supporting the inclusion of tracking difference and tracking error reporting items, a couple of commenters suggested alternatives to the calculation methods underlying the reporting requirements, including, for example, measuring tracking error on a weekly or monthly basis rather than a daily basis as proposed.[923] With respect to tracking error, we believe that it is important to calculate tracking error using the same observation frequency across funds and that, based on staff experience, a daily frequency for tracking data is likely more commonly calculated and therefore more readily available to funds than the alternatives proposed. We also believe that daily calculations better reflect the nature of the daily redeemability of an open-end fund, including capturing the daily trading activities on the secondary market for ETFs. One commenter argued that daily tracking error calculations may contain temporary anomalies outside portfolio management control, such as differences in holidays or pricing sources used by

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[923] *See* Invesco Comment Letter (recommending that tracking error be based on a monthly basis rather than a daily basis and that tracking difference be calculated pursuant to an excess return calculation); Confluence Comment Letter (recommending that tracking error be based on a weekly basis rather than a daily basis, arguing that daily periodicity will show excess volatility, providing the Commission and investors with a skewed picture of tracking error).

the fund and/or index providers or temporary market aberrations which may cause a higher daily tracking error.[924] We do not believe such differences would be uninformative. Rather, we believe receiving information on these potential anomalies will better inform investors and Commission staff about the behaviors of index funds and the indexes they track and assist the Commission in our oversight responsibilities. Overall, we do not perceive significant additional benefits in the alternative calculation methods recommended by commenters and continue to believe that the calculation methodologies for tracking difference and tracking error, as proposed, are appropriate.

Specifically, tracking difference will be calculated as the annualized difference between the index fund's total return during the reporting period and the index's return during the reporting period, and tracking error will be calculated as the annualized standard deviation of the daily difference between the index fund's total return and the index's return during the reporting period.[925] 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 performance of the target index.[926] In addition, tracking difference and tracking error before fees and expenses[927] will 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.[928]

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[924] *See* Invesco Comment Letter.

[925] *See* Proposing Release, *supra* footnote 7, at 33639–40. *See also* Morningstar Paper, *supra* footnote 920, at 29.

[926] *See* Morningstar Paper, *supra* footnote 920, at 5. We believe that this information will help data users understand which funds are best tracking their target indexes and could highlight outlier funds.

[927] *See* 0 and 0 of Form N-CEN.

[928] *See* Morningstar Paper, *supra* footnote 920, at 9.

Finally, as proposed, master funds will 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.[929] Similarly, a feeder fund will be required to provide identifying information of its master fund.[930]

We are also adopting, as proposed, the requirement in Form N-CEN that a management company report if it seeks to operate as a non-diversified company, as defined in section 5(b)(2) of the Investment Company Act.[931] Form N-SAR, in contrast, asks if the management company was a diversified investment company at any time during the period or at the end of the reporting period.[932] The item in Form N-CEN is forward looking rather than backward looking as in Form N-SAR and 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.[933] We believe this item will allow our staff to more accurately ascertain the universe of non-diversified funds and, thus, better assist us in our analysis and inspection functions. One commenter suggested that this reporting requirement also consider the identification of funds that intended to operate as non-diversified at some point during the reporting period but have since changed to

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929 0 of Form N-CEN.

930 0 of Form N-CEN.

931 0 of Form N-CEN.

932 *See* Item 60 of Form N-SAR.

933 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 will still be required to indicate that it was a non-diversified fund for purposes of this item.

diversified status.[934] We believe that the reporting requirement as proposed is appropriate for our purpose of being able to efficiently identify non-diversified companies.

ii. Investments in Certain Foreign Corporations

Form N-CEN requires, as proposed, that a management company identify if it invests in a CFC for the purpose of investing in certain types of instruments, such as commodities.[935] If it does, it must include the name and LEI of such corporation, if any.[936] As discussed above in section 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 CFC for the purpose of investing in certain types of instruments will provide investors greater insight into CFCs that may have certain legal, tax, and country-specific risks associated with them. Combined with the information that we are collecting in Form N-PORT, Commission staff will use this information to better understand the use of CFCs, which could allow for more efficient collaboration with foreign financial regulatory authorities to the extent the Commission may need books and records or other information for specific funds or general inquiries related to CFCs.

iii. Securities Lending

As discussed above, we are adopting requirements 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 related

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934 *See* Schnase Comment Letter.

935 0 of Form N-CEN. As in the proposal, an instruction to the item defines "controlled foreign corporation" as having the meaning provided in section 957 of the Internal Revenue Code.

936 *Id.*

cash collateral reinvestments.[937] Additionally, we are adopting requirements that funds include in their statements of additional information[938] 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.[939]

We proposed, and continue to believe it is appropriate, 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 Form N-PORT. In this regard, we believe that the proposed annual reporting requirement on Form N-CEN yields sufficiently timely data and more appropriately balances the requirements' benefits with their associated costs than would additional monthly reporting requirements on Form N-PORT. Some commenters expressed general support for reporting securities lending information on Form N-CEN.[940] One commenter suggested that the Commission require even more detailed reporting requirements concerning services provided by securities lending agents, including, for example, information about how securities are selected for loan, contending that the public availability of the information may

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937 *See supra* sections 0 and 0.v.

938 "Statement of additional information" means the statement of additional information required by Part B of the registration form applicable to the fund.

939 *See* discussion *infra* section 0 regarding securities lending disclosures in the Statement of Additional Information and Form N-CSR; *see also supra* footnote 192.

940 *See, e.g.*, BlackRock Comment Letter; Blackrock Directors Comment Letter; CFA Comment Letter; EY Comment Letter (suggesting, however, that securities lending disclosures proposed in Regulation S-X would be more appropriate in Form N-CEN than on Form N-PORT); Fidelity Comment Letter (recommending, however, that information concerning third-party lending agent arrangements should be non-public); Morningstar Comment Letter; RMA Comment Letter; SIFMA Comment Letter I; State Street Comment Letter.

assist a fund board in understanding fees and services and drawing conclusions concerning their comparability.[941]

We acknowledge that the commenter's recommended additions could yield information that may be useful to the Commission as well as to some data users, and recognize that a fund board's consideration of securities lending services may rightfully include consideration of how securities are selected for loan and the other matters raised by the commenter. However, the information required by Form N-CEN is intended primarily for Commission regulatory purposes, and—balancing those purposes against the reporting costs associated with additional requirements—we have determined that the requirements we are adopting today are appropriate. The adopted requirements are meant to yield census-type information that is, to the extent practicable, comparable across reporting funds and that permits the Commission and other potential users to follow up, as appropriate, on patterns and idiosyncrasies in the reported data. We believe, therefore, that the nuanced information the commenter suggests requiring is better provided in a fund's registration statement than in reports on Form N-CEN, to the extent required.

We are therefore adopting, as proposed, a requirement that each management company report annually on new Form N-CEN whether it is authorized to engage in securities lending transactions and whether it loaned securities during the reporting period.[942] In addition, we are adopting, as proposed, reporting requirements regarding information about the fees associated

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[941] *See* Blackrock Directors Comment Letter (recommending that the Commission specifically require disclosures on whether qualified dividend income management is provided by lending agents, the client fund, or other third parties; whether securities for loan are selected by the lending agent, the client fund, or other third parties; and whether the lender's securities lending program includes "specials" only (and, if so, how "specials" are defined) or general collateral as well).

[942] 0–0 of Form N-CEN.

with securities lending activity and information about the management company's relationship with certain securities-lending-related service providers.

As in the proposal, management companies that loaned any securities during the reporting period will be required to report certain information, with some modifications in response to comments. Specifically, those management companies will be required to report annually whether any borrower of securities failed to return the loaned securities by the contractual deadline with the result that the fund (or its securities lending agent) liquidated collateral pledged to secure the loaned securities or that the fund was otherwise adversely impacted during the reporting period.[943]

However, this reporting requirement has been modified from the proposal, which would have required funds to report whether a borrower defaulted on its obligations to return loaned securities or return them on time in connection with a security on loan during that period. Some commenters requested that the Commission narrow the definition of borrower default to exclude "technical" defaults, citing concerns that the item, as proposed, could be read to require that funds report any default, including defaults that are not likely to result in potential harm to the fund and would not appropriately represent counterparty risk.[944] These types of defaults may occur when loaned securities are returned to a fund after the contractual deadline due to operational issues related to processing or communication, which, according to commenters, is not uncommon.[945] Commenters recommended various alternatives to defining borrower default,

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[943] 0 of Form N-CEN.

[944] *See, e.g.*, Fidelity Comment Letter; SIFMA Comment Letter I; Vanguard Comment Letter.

[945] *See* ICI Comment Letter; SIFMA Comment Letter I; Vanguard Comment Letter (recommending that the definition of borrower default be limited to any default that causes a fund to liquidate securities lending collateral pledged in connection with the securities lending arrangement); RMA Comment Letter and State Street Comment Letter (recommending that borrower default be limited to any

including, for example, as any default that causes a fund to liquidate securities lending collateral pledged in connection with the securities lending arrangement[946] or any default that results in losses to the fund.[947] Others noted that a fund can be further protected from borrower default if it is indemnified by the securities lending agent against loss resulting from a shortfall in pledged collateral when a borrower has defaulted.[948]

We are persuaded by commenters and have modified the reporting requirement regarding borrower default to focus on failures to return loaned securities that result in the fund (or its securities lending agent) having to liquidate collateral pledged to secure the loaned securities or the fund otherwise being adversely impacted.[949] We have also added an instruction to clarify that, for purposes of this reporting requirement, other adverse impacts to the fund would include, for example, (1) a loss to the fund if collateral and indemnification were not sufficient to replace the loaned securities or their value, (2) the fund's ineligibility to vote shares in a proxy,[950] or (3)

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default due to events of insolvency or upon an agent lender otherwise formally declaring a default by the borrower pursuant to the relevant borrower agreement); Fidelity Comment Letter (recommending that borrower default be limited to any default that results in losses to the fund, which could arise when the value of collateral for loaned securities and any reimbursement payments due to the fund are insufficient to eliminate losses associated with the default).

946 *See* ICI Comment Letter; Vanguard Comment Letter; SIFMA Comment Letter I.

947 *See* Fidelity Comment Letter. *See also* RMA Comment Letter and State Street Comment Letter (generally recommending borrower default being defined as any default due to events of insolvency or upon an agent lender otherwise formally declaring a default by the borrower pursuant to the relevant borrower agreement). We believe these recommended definitions of default are too narrow because a fund could be harmed by a borrower's failure to return loaned securities whether or not the borrower is insolvent or the lending agent declares an event of default.

948 *See, e.g.*, RMA Comment Letter; State Street Comment Letter.

949 *See* 0 of Form N-CEN.

950 Proxy voting rights generally transfer with loaned securities. *See* Concept Release on the U.S. Proxy System, Investment Company Act Release No. 29340 (July 14, 2010) [75 FR 42982 (July 22, 2010)] at 42994–95.

the fund's ineligibility to receive a direct distribution from the issuer.[951] We believe that with these modifications to the proposal, the Commission may better monitor the risks associated with borrower defaults that have the potential to expose the fund and its shareholders to harm without having funds account for technical defaults that do not pose the same risks.

We are also adopting, as proposed, a requirement that management companies report 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.[952] In addition, in a modification from the proposal, we are now including a requirement that management companies report whether the fund exercised its indemnification rights during the reporting period.[953] A commenter recommended that the Commission require funds to report whether they exercised their indemnification rights to, in part, provide information about defaults and the extent to which counterparty risks are covered by third parties that provide indemnification.[954] We agree with the commenter that this additional requirement would illuminate the frequency of defaults and indemnifications thereby providing the Commission with information about such counterparty defaults and the extent to which those risks are covered by third parties that provide indemnification. We believe that this additional requirement, together with the other default and indemnification requirements, will yield data that will allow the Commission, investors, and other potential users to more effectively assess the counterparty risks associated with borrower

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951 *See* Instruction to 0 of Form N-CEN.

952 0 and 0 of Form N-CEN.

953 0 of Form N-CEN.

954 *See* ICI Comment Letter.

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.[955]

One commenter recommended that details concerning indemnification protection should be made nonpublic.[956] We continue to believe, however, that public reporting is a necessary part of improving transparency regarding a fund's securities lending activities. Specifically, we believe that the information regarding indemnification provisions is relevant to investors evaluating the risks associated with securities lending and comparing those risks across funds, particularly for funds that regularly engage in securities lending activities.

Because management companies often 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 the interconnectedness these service providers may have one with another. Accordingly, we are adopting, as proposed, a requirement that management companies report some basic identifying information about each securities lending agent and cash collateral manager.[957] One commenter suggested that the Commission define the terms "securities lending agent" and "cash collateral manager" for purposes of Form N-CEN.[958] While we continue to believe that these terms are

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[955] As discussed above, commenters to the FSOC Notice suggested that enhanced securities lending disclosures could be beneficial to investors and counterparties. *See supra* footnote 190.

[956] *See* Fidelity Comment Letter (noting that public disclosure may negatively impact a fund's ability to negotiate for lending services).

[957] 0–0 and 0–0 of Form N-CEN.

[958] *See* RMA Comment Letter (noting that the terms are generally well-understood within the fund industry, but suggesting that, for purposes of Form N-CEN, the Commission could define the term "securities lending agent" to mean a party employed by a lender to administer the lender's securities lending program according to the prescribed terms of a legal agreement and the term "cash collateral

generally understood within the fund industry, we have clarified in the Form that the term "cash collateral manager" refers to an entity that manages a pooled investment vehicle in which a fund's cash collateral is invested.[959] In addition, we are requiring that funds report whether each of these service providers is a first- or second-tier affiliated person of the management company.[960] One commenter specifically expressed support for this reporting requirement.[961] This data will highlight those funds that might be expected to rely on Commission exemptive relief in order to engage in securities lending activities with affiliates.[962] Additionally, the disclosure of whether the cash collateral manager is a first- or second-tier affiliate of the

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manager" to mean a party employed by the lender to manage cash collateral on behalf of securities loans).

959 *See* 0 of Form N-CEN.

960 *See* 0 and 0 of Form N-CEN (requiring a Fund to report if the named securities lending agent or cash collateral manager is an "affiliated person" (*i.e.* first-tier affiliate) or "an affiliated person of an affiliated person" (*i.e.* second-tier affiliate) of the Fund). *See also* section 2(a)(3) of the Investment Company Act for a definition of the term "affiliated person." 15 U.S.C. 80a-2(a)(3).

961 *See* RMA Comment Letter.

962 Section 17(d) of the Investment Company Act makes it unlawful for a first- or second-tier affiliate, 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 a first- or second-tier affiliate 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 lending to a borrower that is a first- or second-tier affiliate or compensating a securities lending agent that is a first- or second-tier affiliate with a share of revenue generated by the lending program unless the fund (and/or its affiliate) has obtained an exemptive order from the Commission. These provisions also generally prohibit a fund from investing cash collateral in a first- or second-tier affiliated liquidity pool unless the fund satisfies the conditions in rule 12d1-1 under the Investment Company Act, which provides exemptive relief, subject to certain conditions, for fund investments in an affiliated registered money market fund and a 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 the fund reasonably believes operates in compliance with money market fund regulations. *See* Fund of Funds Investments, Investment Company Act Release No. 27399 (June 20, 2006) [71 FR 36640 (June 27, 2006)] at n. 27 and accompanying text.

securities lending agent[963] 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.

As proposed, Form N-CEN also requires each management company to report whether it has made any 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.[964] In the Proposing Release, we sought comment on whether, in addition to requiring management companies to report whether they made each of the proposed types of payments associated with securities lending, we should also require disclosure of specific rates or amounts paid for each of the enumerated types of compensation.[965] Two commenters expressed general support for disclosure of securities lending income and compensation of securities lending agents and cash collateral managers but recommended that, if compensation figures were required, that they be calculated on the basis of income and fees paid during the reporting period.[966]

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963 0 of Form N-CEN.

964 *See* 0 of Form N-CEN; *see also* Proposing Release, *supra* footnote 7, at section II.E.4.c.iii. Management companies that report that "other" payments were made to one or more securities lending agents or cash collateral managers during the reporting period will also be required to describe the type or types of other payments. *See* 0 of Form N-CEN. In addition, management companies will be required to disclose the total amount of each payment for the reporting period and describe the services provided for the payment. *See infra* section 0 regarding amendments to the Statement of Additional Information and Form N-CSR.

965 *See* Proposing Release, *supra* footnote 7, at 33641–42.

966 *See* RMA Comment Letter; State Street Comment Letter.

We believe that the information we proposed about the types of payments relating to securities lending activities will allow the Commission, investors and other management company boards of directors to understand better the nature 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.[967] We recognize the potential benefits for some data users of access to information about amounts paid for each of the types of compensation in a structured format. However, in light of the fact that Form N-CEN reporting requirements are intended primarily for the Commission's regulatory purposes and that there would be additional reporting costs related to such a change, and further recognizing that additional securities lending information will now be available to investors pursuant to new Statement of Additional Information (or, for closed-end funds, Form N-CSR) requirements discussed below,[968] we have determined not to require reporting of specific compensation amounts or fee rates in reports on Form N-CEN. In addition, we have included in Form N-CEN, a requirement that management companies report the monthly average of the value of portfolio

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[967] 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 (pub. 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) [68 FR 1071 (Jan. 8, 2003)] (Notice); Neuberger Berman Equity Funds, *et al.*, 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 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).

[968] *See infra* section 0.

securities on loan during the reporting period.[969] This requirement was originally proposed to be included in Regulation S-X along with other securities lending disclosure requirements.[970] We have determined to move this information to Form N-CEN as we believe having this information in a structured format will assist our staff in its analyses of the information. As previously noted, we have also determined to move the other proposed securities lending disclosures from Regulation S-X to the Statement of Additional Information (or, for closed-end funds, Form N-CSR), as we believe the Statement of Additional Information (or, for closed-end funds, Form N-CSR) is a more appropriate location for these disclosures.[971] One commenter recommended that funds be required to report average monthly aggregate dollar amounts on loan for each counterparty to the securities loan.[972] We continue to believe, however, that information on the overall monthly average of the value of portfolio securities on loan provides a better understanding of a fund's securities lending program without burdening registrants with additional counterparty reporting requirements.

Finally, we are also adopting a requirement that funds report the net income from securities lending activities in Form N-CEN.[973] We proposed to require disclosure of this information in fund financial statements pursuant to proposed amendments to Regulation S-X, and we sought comment on whether the information should be required in reports on Form N-CEN.[974] One commenter suggested that the proposed securities lending financial statement

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[969] 0 of Form N-CEN

[970] *See* proposed rule 6-03(m)(6) of Regulation S-X; Proposing Release, *supra* footnote 7, at 33624.

[971] *See supra* section 0 (discussing securities lending disclosures in the Statement of Additional Information and Form N-CSR).

[972] *See* John Adams Comment Letter.

[973] 0 of Form N-CEN.

[974] Proposed rule 6-03(m)(3) of Regulation S-X; Proposing Release, *supra* footnote 7, at 33625.

disclosure requirements be instead included in Form N-CEN, as presentation there would be less likely to detract from other material information in the financial statements.[975] Another commenter suggested that requiring additional information on Form N-CEN, including income from securities lending activities, would make the other required information more complete and useful.[976] We agree with commenters that reporting of net income from securities lending activities would yield useful information for the Commission and other data users and have determined to add this requirement. In particular, information about net income from securities lending activity in a structured format provides useful context for the other securities lending reporting requirements, such as those concerning fees.

Together, the data that these requirements will yield will allow the Commission to better understand the interaction of these service providers with management companies. We also believe that the reporting of this data will increase the transparency of information available to the public on the lending and borrowing of securities by funds, a subset of the market participants engaged in securities lending activities.[977] In addition to informing the Commission's risk analysis, we believe that this information will also help inform other data users about the use of, and possible risks associated with, the lending of portfolio securities by management companies.

iv. Reliance on Certain Rules

We are adopting, as proposed, a requirement in Form N-CEN that management companies report whether they relied on certain rules under the Investment Company Act during

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[975] EY Comment Letter.

[976] *See* BlackRock Directors Comment Letter.

[977] *See, e.g., supra* footnote 192.

the reporting period.[978] A similar reporting item is contained in Form N-SAR.[979] However, Form N-CEN requires information with respect to additional rules not currently covered by Form N-SAR.[980] We are collecting 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 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.

One commenter suggested that the Commission specify the name of each rule next to the rule number.[981] We believe, however, that the rule number descriptions as proposed in Item C.7 are consistent with other reporting forms and provide sufficient information for registrants, and thus, are adopting the item as proposed.

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978 0 of Form N-CEN.

979 *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) [17 CFR 270.10f-3], rule 12d1-1 [17 CFR 270.12d1-1] (exemptions for investments in money market funds), rule 15a-4 [17 CFR 270.15a-4] (temporary exemption for certain investment advisers), rule 17a-6 [17 CFR 270.17a-6] (exemption for transactions with portfolio affiliates), rule 17a-7 [17 CFR 270.17a-7] (exemption of certain purchase or sale transactions between an investment company and certain affiliated persons thereof), rule 17a-8 [17 CFR 270.17a-8] (mergers of affiliated companies), rule 17e-1 [17 CFR 270.17e-1] (brokerage transactions on a securities exchange), rule 22d-1 [17 CFR 270.22d-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 [17 CFR 270.23c-1] (repurchase of securities by closed-end companies), rule 32a-4 [17 CFR 270.32a-4] (independent audit committees)) *with* Item 40, Item 77.N, Item 77.O, Item 102.M, and Item 102.N of Form N-SAR (requiring information regarding rule 2a-7 [17 CFR 270.2a-7] (money market funds), rule 10f-3 (see above for description), and rule 12b-1 [17 CFR 270.12b-1] (distribution of shares by registered open-end management investment company)).

980 *Id.*

981 Schnase Comment Letter.

In addition, we are adopting, as proposed, amendments to 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.[982] 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.[983] Our amendments to rule 10f-3 will eliminate the requirement to periodically report this information,[984] but will 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.[985] We did not receive comment on this aspect of the proposal.

v. Expense Limitations

As in Form N-SAR,[986] Form N-CEN requires information regarding expense limitations.[987] The requirements in Form N-CEN are, as proposed, modified from Form N-SAR

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982 *See* adopted amendments to rule 10f-3.

983 *See* rule 10f-3(c)(12) under the Investment Company Act [17 CFR 270.10f-3(c)(12)].

984 *See* rule 10f-3(c)(9) under the Investment Company Act [17 CFR 27010f-3(c)(9)].

985 Similar exemptive rules take this approach and do not require filings with the Commission. *See, e.g.*, 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 delete the filing requirement in the final amended rule 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)].

986 *See* Item 53.A–Item 53.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).

987 0 of Form N-CEN.

and require 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.[988] We believe that more specific questions relating to management company expense limitation arrangements will limit uncertainty for management companies when responding to these items and will be a useful means to flag the occurrence of expense limitations whereby Commission staff can request further information in connection with staff examinations and other inquiries. One commenter expressed support for the expense limitation reporting requirement but suggested that the item include reporting of the actual dollar values of the expense information.[989] We continue to believe, however, that the reporting item, as proposed, appropriately balances the burden on funds of providing this information and information necessary for our regulatory purposes. The adopted requirements are meant to yield census-type information that is, to the extent practicable, comparable across reporting funds and that permits the Commission and other potential users to follow up, as appropriate, on patterns and idiosyncrasies in the reported data. We believe therefore that the detailed and nuanced information the commenter suggests requiring is better provided in a fund's registration statement than in reports on Form N-CEN, to the extent required or otherwise appropriate.

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[988] *Id.* Form N-CEN also includes 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 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 0 of Form N-CEN.

[989] *See* Morningstar Comment Letter.

vi. Service Providers

Form N-CEN (similar to Form N-SAR)[990] will, as proposed, collect identifying information on the management company's service providers, including its advisers and sub-advisers,[991] transfer agents,[992] pricing services agents,[993] custodians (including custodians that provide services as sub-custodians),[994] shareholder servicing agents,[995] administrators,[996] and affiliated broker-dealers.[997] Together, these items will assist the Commission in 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.

Unlike Form N-SAR, Form N-CEN will, as proposed, also require the management company to 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).[998] In addition, like Form N-SAR, and as proposed, Form N-CEN requests custodians to indicate the type of custody, but will expand upon the types of custody listed.[999]

One commenter recommended that the text of Item C.10 separate the term "transfer agent" from "sub-transfer agents" by including disclosures about the nature of the services

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990 *See* Item 8 and Items 10–15 of Form N-SAR.

991 0 of Form N-CEN.

992 0 of Form N-CEN. Form N-SAR equates a "shareholder servicing agent" with a "transfer agent." *See* Instruction to Item 12 of Form N-SAR.

993 0 of Form N-CEN.

994 0 of Form N-CEN.

995 0 of Form N-CEN.

996 0 of Form N-CEN.

997 0 of Form N-CEN.

998 *See, e.g.*, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0, 0 and 0 of Form N-CEN.

999 *Compare* Item 15.E and Item 18 of Form N-SAR *with* 0–0 of Form N-CEN.

rendered by sub-transfer agents to help assess shareholder costs paid.[1000] The commenter did not, however, suggest a particular list of specific services. We note that the proposed form requested information with respect to "each" service provider, which we believe would include service providers providing services to the fund in a sub-service provider capacity.[1001] However, in response to this comment, we have clarified for each relevant service provider, including transfers agents, that the fund must report sub-service providers in response to the service provider items.[1002] Thus, with respect to the item, we have added a sub-item requiring that funds indicate if the transfer agent is a sub-transfer agent.[1003] We have determined not to require a description of the services provided by each transfer agent (or of other service providers) in Form N-CEN as we believe the information as proposed is sufficient for our regulatory purposes and because it is unclear whether, absent a specific set of listed services in Form N-CEN, which the commenter did not provide, this information on services would yield comparable census-type data across funds.

With respect to custodian information, one commenter suggested that the form should require identification of the primary custodian only, citing that the primary custodian is the primary service provider of the fund, whereas any sub-custodians, depositories, or clearing organizations that provide custodial services will be a function of the specific instruments that

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[1000] Morningstar Comment Letter.

[1001] We understand that a sub-service provider generally contracts with a primary service provider of the fund, rather than the fund itself, to provide a certain subset of the services that the primary service provider has otherwise agreed to provide the fund.

[1002] *See* 0, 0, 0, and 0 of Form N-CEN. We note that a similar requirement was proposed with respect to custodians. *See* Item 37.a.vi of proposed Form N-CEN.

[1003] *See* 0 of Form N-CEN.

the fund invests in during the reporting period.[1004] We note that identifying sub-custodians on Form N-CEN is consistent with reporting requirements on Form N-SAR.[1005] Because sub-custodians and other sub-service providers may provide important services to funds, we continue to believe that requesting information about sub-custodians and other sub-service providers in addition to the primary service providers is appropriate and useful for purposes of our oversight responsibilities. For example, should an adverse market event affect a particular sub-custodian, Commission data analysts could use the required information about sub-custodians to identify potentially affected funds. Information about the primary custodian alone would not permit such identification.

As proposed, the form would have included two new requirements regarding pricing services. Management companies would have to provide identifying information on persons that provided pricing services during the reporting period,[1006] 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.[1007] Based on staff experience, management companies and their boards often rely on pricing agents to help price securities held by the fund.

One commenter expressed support for the new reporting requirements, noting that the information would be sufficient to conduct due diligence on pricing and valuation issues.[1008]

[1004] State Street Comment Letter.

[1005] *See, e.g.*, Instructions to Item 15 of Form N-SAR; *see also* Item 15 and Item 92 of Form N-SAR, including Item 15.E and Item 92.D of Form N-SAR, which require reporting of rule 17f-5 [17 CFR 270.17f-5] foreign custodians.

[1006] *See* Item 35 of proposed Form N-CEN.

[1007] *See* Item 36 of proposed Form N-CEN.

[1008] Morningstar Comment Letter.

One commenter expressed concern that reporting pricing services no longer retained could improperly imply that valuation services provided by the former service provider were incorrect and/or unreliable.[1009] In response to that comment, we have determined to remove from the form the item requiring funds to provide information on pricing services no longer retained. We have instead revised Item C.11 of the form, which requires information on persons who provided pricing services to the fund during the reporting period, to ask whether a pricing agent was hired or terminated during the report period.[1010] Unlike the proposed requirement and in response to the commenter's concern, Item C.11 as modified does not identify specifically the pricing service that was terminated. A similar question is also included in the form for other fund service providers and, as with the information provided for other service providers, will still provide Commission staff with a method for identifying whether a fund has initiated or terminated a service provider relationship during the reporting period.[1011]

As in the proposal, Part C will 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[1012] and with which the management company did the largest dollar amount of principal transactions.[1013] Form N-SAR also requests identifying information

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[1009] *See* Fidelity Comment Letter.

[1010] As proposed, Item 35(f) would have asked "Was the pricing service first retained by the Fund to provide pricing services during the current reporting period?" As adopted, Item C.11.b asks "Was a pricing service hired or terminated during the reporting period?".

[1011] *See, e.g.,* 0–0 of Form N-CEN (requesting information regarding transfer agents, custodians, shareholder servicing agents, and third-party administrators).

[1012] 0 of Form N-CEN.

[1013] 0 of Form N-CEN.

on these entities,[1014] which is not available elsewhere in a structured format. We continue to believe that brokerage commission and principal transaction information provides valuable information to Commission staff about management company brokerage practices, and will assist the staff in identifying the 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. Additionally, similar to Form N-SAR, Form N-CEN requires information concerning 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.[1015] We did not receive comment on these aspects of the proposal.

In a modification from the proposal, we are now including a requirement that (1) funds other than money market funds report their monthly average net assets during the reporting period,[1016] and (2) money market funds report the daily average net assets during the reporting period.[1017] Funds currently report this information on Form N-SAR reports.[1018]

[1014] 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 will be included in Form N-CEN. *See* Instructions to 0 and 0 of Form N-CEN.

[1015] 0 of 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, Securities Exchange Act Release No. 34-54165 (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).

[1016] 0 of Form N-CEN.

[1017] 0 of Form N-CEN.

One commenter suggested that such net asset information (*e.g.*, Item 75) as well as fee and expense information (*e.g.*, Items 34–44, 47–52, 54, and 72), currently available semi-annually on Form N-SAR should carry over into Form N-CEN, arguing that the removal of these reporting items will make the fee and expense information more difficult to acquire and analyze.[1019] The commenter argued, in part, that while this information could be calculated based on information available through other sources, the manual aggregation of this information would put comprehensive analysis out of reach for investors and fund boards unless they were using services from third-party market data providers that may have the means to conduct such data aggregation. We continue to believe that fee and expense information reported on Form N-SAR need not be reported on Form N-CEN because fee and expense information is largely already disclosed in fund registration statements and, with respect to some information, in a structured format.[1020] However, we find the commenter's suggestion regarding reporting of average net assets persuasive and have added the reporting items of Item 75 of Form N-SAR into Form N-CEN.[1021] We believe that this information will assist data users in their analysis of various reporting items, including other information reported on Form N-CEN (for example, the monthly average of the value of portfolio securities on loan that will be reported pursuant to Item C.6.f).

[1018] *See* Item 75 of Form N-SAR.

[1019] *See* Morningstar Comment Letter.

[1020] *See infra* footnote 1169 and accompanying text. We note that certain fee and expense information for closed-end funds, which is not disclosed in a structured format in closed-end fund registration statements, is included in Part D of Form N-CEN. *See* 0 and 0 of Form N-CEN. These items will provide Commission staff with the fee and expense information for closed-end funds that the staff finds most useful to have in a structured data format.

[1021] *See* 0 of Form N-CEN.

d. Part D — Closed-End Management Companies and Small Business Investment Companies

The Commission recognizes that closed-end funds and SBICs have particular characteristics that warrant questions targeted specifically to them.[1022] Like Form N-SAR and as proposed, Form N-CEN requires additional information to be reported by closed-end funds in Part D of the form and also treats SBICs differently than other management investment companies, requiring them to complete Part D of the form in lieu of Part C.[1023] The information required in Part D will provide us with information that is particular to closed-end funds and SBICs and, thus, will assist us in monitoring the activities of these funds and our examiners in their preparation for exams of these funds. Where we have received comments on specific reporting requirements of Part D, we discuss them in more detail below.

Similar to Form N-SAR, we are adopting, as proposed, a reporting requirement in Part D of Form N-CEN for 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.[1024] As in the proposal, we are requiring new information relating to rights offerings[1025] and secondary offerings by the closed-end fund or SBIC,[1026]

[1022] *See* Items 86–88 of Form N-SAR (relating specifically to closed-end funds) and Items 89–104 of Form N-SAR (relating specifically to SBICs).

[1023] As discussed above, SBICs are unique investment companies that operate differently than other management investment companies. *See supra* footnote 49.

[1024] 0 of Form N-CEN; *cf.* Items 87–88 and Item 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 0 of Form N-CEN indicates that the fund should provide the ticker symbol for any security not listed on an exchange, but has a ticker symbol.

[1025] 0 of Form N-CEN.

[1026] 0 of Form N-CEN.

including whether there was such an offering during the reporting period and if so, the type of security involved.[1027] 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,[1028] we are also adopting, as proposed, a requirement that each closed-end fund or SBIC report information on repurchases of its securities during the reporting period.[1029] 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, we are adopting, as proposed, the requirement in Form N-CEN that a closed-end fund or SBIC only needs 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.[1030]

As proposed, we are also carrying over Form N-SAR's requirements[1031] relating to default on long-term debt[1032] and dividends in arrears.[1033] However, unlike Form N-SAR, which requires an attachment providing detailed information on defaults and arrears on senior

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[1027] *See* 0 and 0 of Form N-CEN. 0 of Form N-CEN also requires the percentage of participation in a primary rights offering and an accompanying instruction to this item addresses the method of calculating such percentage.

[1028] *See* Item 86 and Item 95 of Form N-SAR.

[1029] 0 of Form N-CEN.

[1030] We note that, with respect to closed-end funds, financial information relating to monthly sales and repurchases of shares will be reported monthly on Form N-PORT. *See* 0 of Form N-PORT (requiring the aggregate dollar amounts for sales and redemptions/repurchases of fund shares during each of the last three months).

[1031] *See* Item 77.G and Item 102.F of Form N-SAR.

[1032] 0 of Form N-CEN.

[1033] 0 of Form N-CEN.

securities,[1034] Form N-CEN only will require a yes/no question and text-based responses.[1035] Also as proposed, we are similarly carrying over the Form N-SAR requirement[1036] regarding modifications to the constituent's instruments defining the rights of holders.[1037] Similar to Form N-SAR, if a closed-end fund or SBIC made modifications to such an instrument, it also will be required to file an attachment in Part G of Form N-CEN with a more detailed description of the modification.[1038] This item provides the Commission with information on and copies of documents reflecting changes to shareholders' rights.

We are also adopting, as proposed, requirements in Part G of Form N-CEN that closed-end funds or SBICs file attachments regarding material amendments to organizational documents,[1039] new or amended investment advisory contracts,[1040] information called for by Item 405 of Regulation S-K,[1041] and, for SBICs only, senior officer codes of ethics.[1042] Where possible, we sought to eliminate the need to file attachments with the report in order to simplify

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[1034] Item 77.G and Item 102.F of Form N-SAR.

[1035] 0 of Form N-CEN requires, 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 defines "long-term debt" to mean a debt with a period of time from date of initial issuance to maturity of one year or greater. 0 of Form N-CEN requires, with respect to any dividends in arrears, the title of the issue and the amount per share in arrears. This item defines "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.

[1036] Item 77.I and Item 102.H of Form N-SAR.

[1037] 0 of Form N-CEN.

[1038] 0 of Form N-CEN.

[1039] 0 of Form N-CEN.

[1040] 0 of Form N-CEN.

[1041] 0 of Form N-CEN.

[1042] 0 of 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* Item 2 and Item 3 of Form N-CSR; *see also* rule 30d-1 under the Investment Company Act [17 CFR 270.30d-1].

the filing process and maximize the amount of information we receive in a data tagged format. However, the attachments required by Form N-CEN will 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 Form N-CEN that are specific to closed-end funds and SBICs are also currently required by Form N-SAR.[1043]

Similar to Form N-SAR, we are adopting, as proposed, a requirement for other census-type information relating to management fees and net operating expenses. Closed-end funds will be required to report the fund's advisory fee as of the end of the reporting period as a percentage of net assets.[1044] Some commenters expressed support for this specific item requirement.[1045] One of the commenters also suggested that funds report the actual management fee paid as a percentage of the average NAV of the fund during the reporting period so that the fee reported reflects the fee charged during the reporting period.[1046] We are adopting the requirement as proposed because it meets our regulatory purposes and is consistent with the fee disclosure requirements for closed-end funds in their registration statements.[1047] We believe that reporting

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[1043] *Compare* 0 of Form N-CEN *with* Item 77.Q.1, Item 77.Q.2, Item 102.P.1, Item 102.P.2, and Item 102.P.3 of Form N-SAR; *see also* Instructions to Specific Item 77Q1(a), Item 77Q1(e), Item 77Q2, Item 102P1(a), Item 102P1(e), Item 102P2, and Item 102P3 of Form N-SAR.

[1044] 0 of Form N-CEN; *cf.* Items 47–52 and Item 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 0 of Form N-CEN explains that the management fee reported should be based on the percentage of amounts incurred during the reporting period.

[1045] *See* ICI Comment Letter (agreeing that management fee information should be backward looking); State Street Comment Letter (also agreeing that the advisory fee should be backward looking, noting that backward looking disclosures are consistent with the annual financial statements of regulated investment companies).

[1046] *See* ICI Comment Letter.

[1047] *See* Item 3 of Form N-2 (requesting management fee information as a percentage of net assets attributable to common shares).

in this manner will yield information that is more readily comparable across types of funds, as open-end funds must currently disclose tagged fee information as a percentage of net assets in XBRL in the fund's risk/return summary.[1048]

Additionally, as proposed, closed-end funds and SBICs will 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. [1049] Unlike open-end funds, which provide management fee and net expense information to the Commission in a structured format,[1050] such information is not reported to or updated with the Commission in a structured format by closed-end funds or SBICs. This information will allow the Commission to track industry trends relating to fees. As proposed, Form N-CEN carries forward the Form N-SAR requirement that market price per share[1051] and NAV per share[1052] of the fund's common stock be reported for the end of the reporting period.

Finally, as proposed, Form N-CEN (like Form N-SAR) will require information regarding an SBIC's investment advisers,[1053] transfer agents,[1054] and custodians (including custodians that provide services as sub-custodians).[1055] This information is the same as what will

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[1048] *See* General Instruction C.3.G to Form N-1A.

[1049] 0 of Form N-CEN; *cf.* Item 72.X and Item 97.X of Form N-SAR (requesting total expenses in dollars for closed-end funds and SBICs).

[1050] 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 Form N-CEN. *See* General Instruction C.3.G to Form N-1A.

[1051] 0 of Form N-CEN; *see* Item 76 and Item 101 of Form N-SAR

[1052] 0 of Form N-CEN; *see* Item 74.V.1 and Item 99.V of Form N-SAR.

[1053] 0 of Form N-CEN.

[1054] 0; *see supra* footnotes 990–997 and accompanying text; *see also supra* footnotes 1000–1002, and accompanying text (discussing the addition of a sub-item related to sub-transfer agents).

[1055] 0 of Form N-CEN.

be reported by open-end and closed-end funds in Part C of Form N-CEN, but SBICs will not be required to fill out Part C of the form. The majority of questions in Part C of Form N-CEN are inapplicable to SBICs or otherwise request information that will not be helpful to us in carrying out our regulatory functions with respect to SBICs. Accordingly, we are excepting SBICs from filling out Part C of the form and instead including for SBICs certain service provider questions from Part C in Part D of the form.

e. Part E — Exchange-Traded Funds and Exchange-Traded Managed Funds

As we proposed, we are adopting a section in Form N-CEN related specifically to ETFs—Part E—which ETFs will 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 generally 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").[1056] 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

[1056] 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, positions, cash, and other assets." Instruction to 0 of Form N-CEN. We have made a modification from the proposed definition of "creation unit" to clarify, consistent with current Commission exemptive relief, that a "creation unit" could also include "positions" that may not be "assets." 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 or a DTC Participant, 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 the authorized participant to place orders to purchase or redeem creation units of the Exchange-Traded Fund or Exchange-Traded Managed Fund." Instruction to 0 of Form N-CEN. We have made a modification from the proposed definition of "authorized participant" to clarify, consistent with current Commission exemptive relief, that the definition of "authorized participant" includes broker-dealers that are DTC participants and otherwise fall within the definition's scope.

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.[1057]

ETFs currently are subject to the same 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[1058] that are open-end funds to better meet the needs of investors who purchase those ETF shares in secondary market transactions.[1059] We believe that it is appropriate to similarly tailor some of the comprehensive information reporting requirements in Form N-CEN to the special characteristics of ETFs. As we proposed, funds and UITs meeting the definition of "exchange-traded fund" in Form N-CEN will be required to report information pursuant to the items in Part E of the form, as will certain similar investment products known as "exchange-traded managed funds."[1060] Taken together, we believe that, in addition to informing the Commission's risk analysis and, potentially, future policymaking concerning ETFs, the information these requirements will yield could also help inform the interested public about the operation of, and possible risks associated with, these funds.

[1057] *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* footnote 5.

[1058] *See* General Instruction A of Form N-1A (defining "Exchange-Traded Fund").

[1059] *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)].

[1060] General Instruction 0 to Form N-CEN; *see also supra* footnote 763.

Some commenters supported having a distinct section for ETFs.[1061] However, as discussed in detail below, some commenters expressed certain concerns about specific reporting items, and, in particular, the public disclosure of certain reporting items.[1062] We are adopting proposed Part E, with some modifications in response to specific commenter concerns, which are addressed in more detail below. In particular, several of the modifications we are making today are intended to address concerns raised by commenters that certain of the proposed Part E reporting requirements may yield data that is not representative of the ETF's activity over the course of the reporting period and may not be appropriately reflective of the range of activity in the ETF primary market today or in the future.[1063]

Some of the new reporting requirements for ETFs that we are adopting 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.[1064] Because of their importance, we proposed new reporting requirements concerning these entities,[1065] and we have determined to adopt these new reporting requirements as proposed.

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 will allow us to understand and better assess the size, capacity, and concentration of

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[1061] *See, e.g.*, BlackRock Comment Letter; Morningstar Comment Letter.

[1062] *See* BlackRock Comment Letter; Invesco Comment Letter; SIFMA Comment Letter I; State Street Comment Letter.

[1063] *See, e.g.*, *infra* footnotes 1077, 1081, 1091–1092 and accompanying text.

[1064] *See* ETF Proposing Release, *supra* footnote 5, at 14620–21.

[1065] Proposing Release, *supra* footnote 7, at 33645–46; Liquidity Proposing Release, *supra* footnote 11, at 62348.

the authorized participant framework and also inform the public about certain characteristics of the ETF primary markets. Accordingly, we are adopting, as proposed, a new requirement for each ETF to report identifying information about its authorized participants.[1066] More specifically, Form N-CEN will 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)[1067] and certain other identifying information,[1068] including the authorized participant's SEC file number.[1069] One commenter expressly supported reporting of this information, but suggested that authorized participants, rather than funds, should be required to provide this identifying information to the Commission, reasoning that authorized participants would have more ready access to the required information than funds.[1070] Although we acknowledge that authorized participants would be expected to have access to the required information, we believe that, because authorized participants are counterparties to ETFs in primary market transactions, the required information should also be available to ETFs with which the authorized participants contract and transact. Because the requirements are intended in part to yield information about reliance by ETFs on particular authorized participants, and the Commission as well as other data users seeking census-type information about ETFs will likely

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[1066] 0–0 of Form N-CEN.

[1067] 0 of Form N-CEN.

[1068] 0–0 of Form N-CEN.

[1069] 0 of Form N-CEN.

[1070] *See* State Street Comment Letter (stating that it would be appropriate for an ETF to list the authorized participants with which it has contracted, but that the additional information proposed in Part E (including the SEC file number, central registration depository (CRD) number, LEI number, and the dollar value of the ETF shares purchased and redeemed during the reporting period) would be more appropriately requested from the authorized participants themselves).

be able to find and analyze it most efficiently using reports on Form N-CEN, we believe that ETFs themselves are the most appropriate source for the required information.

In addition, we are adopting a requirement for each ETF to report the dollar value of the ETF shares that each authorized participant purchased and redeemed from the ETF during the reporting period.[1071] Some commenters objected to the inclusion of this requirement in Form N-CEN, expressing concerns that reporting authorized participant activities on Form N-CEN could discourage authorized participants from participating in the ETF market, leading to further concentration in the authorized participant community or authorized participants' moving their ETF-related trading activities to banks or "clearing" authorized participants.[1072] We continue to believe, however, that 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. We believe that adopting the new reporting requirements is appropriate in light of these benefits notwithstanding the possibility that public availability of the information might affect the ETF primary markets in the manner those commenters suggest.

We also proposed, in the Liquidity Proposing Release, to require an ETF to report whether it required that an authorized participant post collateral to the ETF or any of its designated service providers in connection with the purchase or redemption of ETF shares during the reporting period.[1073] We understand that some ETFs (or their custodians), particularly ETFs

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[1071] 0–0 of Form N-CEN.

[1072] *See* BlackRock Comment Letter; Invesco Comment Letter; SIFMA Comment Letter I; State Street Comment Letter.

[1073] Liquidity Proposing Release, *supra* footnote 11, at 62348.

that invest in non-U.S. securities, require authorized participants transacting primarily on an in-kind basis to post collateral when purchasing or redeeming shares, most often for the duration of the settlement process. This can protect the ETF in the event, for example, that the authorized participant fails to deliver the basket securities.[1074] The requirement to post collateral for creating or redeeming ETF shares impacts the authorized participant's operating capital, which could, in turn, affect the ability and willingness of authorized participants to transact with such ETFs or transact with other market makers on an agency basis. Accordingly, we continue to believe that information about required posting of collateral by authorized participants when purchasing or redeeming shares—alongside the other information that will be required in Form N-CEN—will be helpful in understanding whether, and to what extent, there may be concentration in the authorized participant framework for such ETFs. Therefore, we are adopting this requirement as proposed.[1075]

Other new reporting requirements relate to certain characteristics of ETF creation units—the large blocks of shares that authorized participants may purchase from or redeem with the ETF. In the primary market, ETF shares, bundled in creation units, are sold or redeemed for consideration composed of some combination of the ETF's constituent portfolio securities (*i.e.*, an "in-kind" basis) and cash (*i.e.*, on a cash basis). Whether transacting in kind or in cash, there may be costs that result from the process of carrying out the transaction. In addition, 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)

[1074] *See, e.g.*, ICI, The Role and Activities of Authorized Participants of Exchange-Traded Funds (Mar. 2015) at 4, *available at* https://www.ici.org/pdf/ppr_15_aps_etfs.pdf. In addition to ETFs that invest in non-U.S. securities, Commission Staff understands that there are other ETFs that have collateral requirements for purchases and redemptions, such as ETFs that invest in debt securities.

[1075] 0 of Form N-CEN.

involved with buying the securities with cash or selling portfolio securities to satisfy a cash redemption. In the course of such primary market transaction, the particular authorized participant wishing to purchase (or redeem) shares typically bears the costs associated with transacting in the creation unit or units in the form of one or more transaction fees. The costs, therefore, are not directly borne by non-transacting shareholders. In the Proposing Release, we characterized these transaction fees as taking two specific forms (*viz.*, "fixed fees" and "variable fees") with corresponding purposes, and that characterization reflects our understanding of the typical transaction costs in the ETF primary markets today.[1076] As discussed below, a commenter raised concerns that transaction fees may not uniformly fit within the two types of fees discussed in the Proposing Release, and we are persuaded that it is appropriate to modify the proposed form's characterization of these transaction fees in Form N-CEN as we are adopting it today.[1077]

In order to better understand the capital markets implications of different creation unit requirements, primary market transaction methods, and transaction fees, we proposed requirements 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 new data items is limited and indeterminable. To better understand how common different transaction methods are and the degree to which they vary across ETFs and over time, we proposed to require that ETFs report the total value (i) of creation units that were purchased by

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[1076] *See* Proposing Release, *supra* footnote 7, at 33646. We characterized a "fixed fee" as a fee covering the transactional costs associated with assembling (or disassembling) creation units. *Id.* We characterized a "variable fee" as one intended to ensure that the purchasing or redeeming party bears the costs associated with transacting entirely or partially on a cash basis. *Id.*

[1077] *See* Invesco Comment Letter.

authorized participants "primarily" in exchange for portfolio securities on an in-kind basis; (ii) of those that were redeemed "primarily" on an in-kind basis; (iii) of those that were purchased by authorized participants "primarily" in exchange for cash; and (iv) of those that were redeemed "primarily" on a cash basis.[1078] For purposes of these reporting requirements concerning transaction methods and transaction fees, we proposed to define "primarily" to mean greater than 50% of the value of the creation unit.[1079] One commenter expressed general support for this information, opining that it would be helpful for investors.[1080] Another commenter, however, expressed concerns with the proposed distinction between transactions conducted "primarily" on an in-kind basis and those conducted "primarily" in exchange for cash, arguing that treating a creation unit that is almost entirely in-kind with a small cash balancing amount as equivalent to one that is effected with nearly half the value of the creation unit in the form of cash would yield data that would not serve the requirement's purpose.[1081]

We found this comment persuasive, and we agree with the commenter that it would better achieve the proposed requirement's purpose of better understanding different creation unit requirements, primary market transaction methods, and transaction fees to collect such information in a manner that obviates the need for the "primarily" distinction about which the commenter expressed concern. Therefore, in a modification from the proposal, we have eliminated the proposed distinction between "primarily" in-kind and "primarily" cash transactions. Instead, as adopted, Form N-CEN will require ETFs to report, based on the dollar

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[1078] *See* Item 60 of proposed Form N-CEN; *see also* Proposing Release, *supra* footnote 7, at 33646.

[1079] Instruction 9 to Item 60 of proposed Form N-CEN; *see also See* Proposing Release, *supra* footnote 7, at 33646.

[1080] *See* BlackRock Comment Letter.

[1081] Invesco Comment Letter.

value paid for each creation unit purchased by authorized participants during the reporting period, (i) the average percentage of that value composed of cash;[1082] (ii) the standard deviation of the percentage of that value composed of cash;[1083] (iii) the average percentage of that value composed of non-cash assets and other positions exchanged on an in-kind basis:[1084] and (iv) the standard deviation of the percentage of that value composed of non-cash assets and other positions exchanged on an in-kind basis.[1085] The ETF will also be required to report, based on the total dollar value of creation units redeemed by authorized participants during the reporting period, (i) the average percentage of that value composed of cash;[1086] (ii) the standard deviation of the percentage of that value composed of cash;[1087] (iii) the average percentage of that value composed of non-cash assets and other positions exchanged on an in-kind basis[1088]; and (iv) the standard deviation of the percentage of that value composed of non-cash assets and other positions exchanged on an in-kind basis.[1089] We believe that this modified requirement will better achieve the purposes of the proposed requirement and address the commenter's concerns about the proposed distinction between "primarily" in-kind and "primarily" cash transactions.

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 proposed a requirement that ETFs report applicable transaction fees—including each of "fixed" and "variable" fees—

[1082] 0 of Form N-CEN.

[1083] 0 of Form N-CEN.

[1084] 0 of Form N-CEN.

[1085] 0 of Form N-CEN.

[1086] 0 of Form N-CEN.

[1087] 0 of Form N-CEN.

[1088] 0 of Form N-CEN.

[1089] 0 of Form N-CEN.

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.[1090]

As discussed above, one commenter expressed concerns about a potential lack of uniformity in how ETFs name and calculate transactional fees and suggested that the Commission provide definitional guidance about the types of fees to be reported in order to receive accurate and standardized information.[1091] Another commenter expressed concerns that the information the proposed requirement would have yielded—which would have pertained specifically to the last creation units purchased or redeemed in the reporting period—may not be representative of the transactions occurring during the period and suggested that an alternative formulation would be more meaningful and helpful for investors.[1092]

We find both of these comments persuasive, and consistent with our overarching objectives of the proposed requirement to collect information that helps data users better understand the effects of primary market transaction fees on ETF pricing and trading and to better inform the public about such fees in a manner that is more representative of the ETF's activity over the course of the reporting period, while being flexible enough to embrace the range of activity in the ETF market today and, to the extent practicable, in the future. Therefore, in a

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[1090] Proposing Release, *supra* footnote 7, at 33646; *see also* Item 60.e–Item 60.h of proposed Form N-CEN.

[1091] Invesco Comment Letter.

[1092] BlackRock Comment Letter (suggesting instead that a range of fees paid over the reporting period be required).

modification from the proposal that we believe will better help us meet these objectives while also responding to commenters' concerns, we are requiring reporting of average fees based on the terms by which they are applied rather than how they are characterized or what purpose they serve. Thus we have modified the proposed requirement in two respects: First, the terms "fixed fee" and "variable fee" have been eliminated, and the fees required to be reported have been specified in a manner that would allow ETFs that today or in the future employ an alternative transaction fee schedule to report those fees consistent with their actual practice. Second, the requirement to report as to the last creation unit purchased or redeemed has been replaced with a requirement to report as to the average creation unit purchased or redeemed during the reporting period, so that the information reported will better reflect the ETF's fees over the course of the reporting period rather than at a specific moment in time. Accordingly, we are adopting a requirement that, as to creation units purchased by authorized participants during the reporting period, ETFs report the average transaction fee (i) charged in dollars per creation unit;[1093] (ii) charged for one or more creation units on the same business day;[1094] and (iii) charged as a percentage of the value of the creation unit.[1095] ETFs will also be required to report, as to only those creation units purchased by authorized participants that were fully or partially composed of cash, the average transaction fee (i) charged in dollars per creation unit;[1096] (ii) charged for one or more creation units on the same business day;[1097] and (iii) charged as a percentage of the value

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[1093] 0 Form N-CEN.

[1094] 0 Form N-CEN.

[1095] 0 Form N-CEN.

[1096] 0 Form N-CEN.

[1097] 0 Form N-CEN.

of the cash in the creation unit.[1098] Finally, as in the proposed requirements, ETFs will be required to report the parallel information for the redemption of creation units by authorized participants.[1099] We believe that this modified requirement will better achieve the purposes of the proposed requirement and address the commenters' concerns about the lack of uniformity in the naming and calculating of ETF primary market transaction fees as well as the representativeness of the fees on the last business day of the reporting period.

We also are adopting, as proposed, a requirement for ETFs to report the number of ETF shares required to form a creation unit as of the last business day of the reporting period,[1100] which we believe will 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. One commenter expressed support for this information, opining that it would be helpful for investors.[1101] In addition to information about authorized participants and creation units, we are requiring, as proposed, that ETFs, like closed-end funds, report 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 affected should an idiosyncratic risk or market event arise in connection with a particular exchange.[1102] In a modification from the proposal, we are also adopting a requirement that ETFs provide their ticker symbol. As discussed above, management investment companies with one or more classes of shares outstanding will be required to provide a ticker symbol, if

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[1098] 0 of Form N-CEN.

[1099] 0 of Form N-CEN.

[1100] 0 of Form N-CEN.

[1101] *See* BlackRock Comment Letter.

[1102] 0 of Form N-CEN.

any, relating to that class,[1103] and as we observed throughout the Proposing Release, identifiers will assist the Commission with organizing the data received and allow the staff to cross-reference the data reported on Form N-CEN with data received from other sources.[1104] We have determined that it is appropriate for ETFs to provide a ticker symbol also, as not all ETFs would be subject to the ticker symbol requirement for management investment companies.

Finally, with respect to ETFs that are UITs, we are requiring information regarding whether the index whose performance the fund tracks is constructed by an affiliated person of the fund and/or exclusively constructed for the fund, as requested by a commenter,[1105] and, as proposed, information regarding tracking difference and tracking error.[1106] One commenter expressed support for the reporting of tracking difference and tracking error, stating that it would be helpful for investors.[1107] Another commenter suggested that tracking error should be reported on a monthly basis, rather than on a daily basis, as proposed.[1108] The index fund information is also required of open-end index funds and, for the same reasons discussed above in connection with those requirements, the form will require this same information of ETFs that are UITs.[1109] As discussed above, commenters made similar suggestions about the methodology for calculating tracking error in the open-end fund index context, and we have determined to adopt

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[1103] *See* 0; 892–894.

[1104] *See, e.g.*, Proposing Release, *supra* note 7, at 33635.

[1105] *See supra* footnote 907 and accompanying text.

[1106] 0 of Form N-CEN.

[1107] *See* BlackRock Comment Letter.

[1108] *See* Invesco Comment Letter. *See supra* footnotes 920–928 and accompanying text.

[1109] *See* 0 of Form N-CEN; *supra* section 0.

the proposed methodology for the same reasons discussed in connection with the open-end index fund requirements.[1110]

f. Part F — Unit Investment Trusts

As proposed, Part F of Form N-CEN requires information specific to UITs. Like Form N-SAR, Form N-CEN recognizes that UITs have particular characteristics that warrant questions targeted specifically to them.[1111] The information requested in Part F will inform us further about the scope and composition of the UIT industry and, thus, will assist us in monitoring the activities of UITs and our examiners in their preparation for exams of UITs. We did not receive specific comments on Part F of the form and are adopting it as proposed.

Form N-CEN (similar to Form N-SAR[1112]) also requires certain identifying information relating to a UIT's service providers and entities involved in the formation and governance of UITs, including its depositor,[1113] sponsor,[1114] trustee,[1115] and administrator.[1116] We are also adopting, as proposed, an item in Form N-CEN that asks whether a UIT is a separate account of an insurance company,[1117] and, depending on a UIT's response to this item, it will then proceed to answer certain additional questions in Part F.[1118] While Form N-SAR generally does not

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[1110] *See supra* footnotes 923–928 and accompanying text.

[1111] *See* Items 111–133 of Form N-SAR (relating specifically to UITs).

[1112] *See* Item 111 (depositor information), Item 112 (sponsor information), Item 113 (trustee information), and Item 114 (principal underwriter information) of Form N-SAR.

[1113] 0 of Form N-CEN.

[1114] 0 of Form N-CEN (only applies to UITs that are not insurance company separate accounts).

[1115] 0 of Form N-CEN (only applies to UITs that are not insurance company separate accounts).

[1116] 0 of Form N-CEN; *see also supra* footnotes 1001–1002 (discussing the addition of a sub-administrator sub-item). Form N-SAR does not request information about a UIT's administrator.

[1117] 0 of Form N-CEN; *see* Item 117.A of Form N-SAR.

[1118] If a UIT responds "yes" to this item, it will proceed to respond to 0–0 of the form. However, if a UIT responds "no" to this item, it will proceed to 0–0, and 0. *See* Instruction to 0 of Form N-CEN.

differentiate between UITs that are and are not separate accounts of insurance companies, Form N-CEN makes 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.

As in the proposal and similar to Form N-SAR,[1119] a UIT that is not a separate account of an insurance company will provide the number of series existing at the end of the reporting period that had securities registered under the Securities Act[1120] and, for new series, the number of series for which registration statements under the Securities Act became effective during the reporting period[1121] and the total value of the portfolio securities on the date of deposit.[1122] As proposed, Form N-CEN also carries over from Form N-SAR[1123] requirements relating to the number of series with a current prospectus,[1124] the number of existing series (and total value) for which additional units were registered under the Securities Act,[1125] and the value of units placed in portfolios of subsequent series.[1126] We are also adopting, as proposed, a requirement in Form

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[1119] *See* Items 118–120 of Form N-SAR (all UITs are required to complete these items).

[1120] 0 of Form N-CEN. As noted earlier, because UITs that register on Form N-8B-2 obtain CIKs for the UIT itself as well as for series offered by the UIT, we have made a clarifying modification to Form N-CEN by including a requirement that such UITs report the CIKs for each of their existing series in response to Item F.6.b of Part F of the form in addition to reporting the CIK for the UIT itself in response to 0. *See supra* footnote 800.

[1121] 0 of Form N-CEN.

[1122] 0 of Form N-CEN.

[1123] *See* Items 121–124 of Form N-SAR (all UITs are required to complete these items).

[1124] 0 of Form N-CEN.

[1125] 0 of Form N-CEN.

[1126] 0 of Form N-CEN.

N-CEN 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,[1127] which is also currently required by Form N-SAR.[1128]

We are also adopting, as proposed, new requirements in Form N-CEN for separate accounts offering variable annuity and variable life insurance contracts. Specifically, if the UIT is a separate account of an insurance company, Form N-CEN requires reporting of its series identification number[1129] and, for each security that has a contract identification number assigned pursuant to rule 313 of Regulation S-T, the number of individual contracts that are in force at the end of the reporting period.[1130]

With respect to insurance company separate accounts, we are also adopting, as proposed, new requirements in Form N-CEN to identify and provide census information for each security issued through the separate account. These requirements will include the name of the security,[1131] contract identification number,[1132] total assets attributable to the security,[1133] number of contracts sold,[1134] gross premiums received,[1135] and amount of contract value redeemed.[1136] This item also requires additional information relating to section 1035 exchanges, including

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[1127] 0 of Form N-CEN.

[1128] *See* Item 127.L of Form N-SAR (all UITs are required to complete this item). Form N-CEN does 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.

[1129] 0 of Form N-CEN.

[1130] 0 of Form N-CEN.

[1131] 0 of Form N-CEN.

[1132] 0 of Form N-CEN.

[1133] 0 of Form N-CEN.

[1134] 0 of Form N-CEN.

[1135] 0 of Form N-CEN.

[1136] 0 of Form N-CEN.

gross premiums received pursuant to section 1035 exchanges,[1137] number of contracts affected in connection with such premiums,[1138] amount of contract value redeemed pursuant to section 1035 redemptions[1139] and the number of contracts affected by such redemptions.[1140] In addition, as proposed, insurance company separate accounts will be required to provide information on whether they relied on rules 6c-7[1141] and 11a-2[1142] 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, as proposed, Form N-CEN carries over the Form N-SAR[1143] requirement that a UIT provide certain information relating to divestments under section 13(c) of the Investment

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[1137] 0 of Form N-CEN.

[1138] 0 of Form N-CEN.

[1139] 0 of Form N-CEN.

[1140] 0 of Form N-CEN.

[1141] 0 of Form N-CEN. Rule 6c-7 under the Investment Company Act provides exemptions from certain provisions of sections 22(e) and 27 of the Investment Company Act for registered separate accounts offering variable annuity contracts to participants in the Texas Optional Retirement Program. *See* 17 CFR 270.6c-7.

[1142] 0 of 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.

[1143] Item 133 of Form N-SAR. Section 13(c) of the Investment Company Act provides a safe harbor for a registered investment company 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 prescribed 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

Company Act.[1144] 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 accordance with which the securities were divested.[1145] If the UIT holds any securities of the issuer on the date of the filing, it will 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.[1146]

g. Part G — Attachments

Like Form N-SAR,[1147] Form N-CEN requires, substantially as proposed, certain attachments to reports filed on the form in order to provide the staff with more granular information regarding certain key issues.[1148] Due to the narrative format of the information required, these attachments will not be required to be reported in a structured data format. Where possible, we eliminated 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

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in Connection With the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, Securities Exchange Act Release No. 34-63087 (Oct. 13, 2010) [75 FR 64120 (Oct. 19, 2010)].

[1144] 0 of Form N-CEN.

[1145] 0 of Form N-CEN.

[1146] 0 of Form N-CEN. An instruction to 0 addresses when the UIT should report divestments pursuant to this item.

[1147] *See* Item 77.E, Item 77.I, Item 77.K, Item 77.L, Item 77.N, Item 77.P, Item 77.Q.1, Item 77.Q.2, Item 102.D, Item 102.H, Item 102.J, Item 102.K, Item 102.M, Item 102.O, Item 102.P.1, Item 102.P.2, and Item 102.P.3 of Form N-SAR.

[1148] Form N-SAR requires only management companies to file attachments to reports on the form, whereas Form N-CEN requires certain attachments for all Registrants.

structured format.[1149] Accordingly, we believe we have limited the number of attachments to the form to those that are most useful to the staff, either because of investor protection issues or because the information is not available elsewhere. Moreover, all except one of the attachments to Form N-CEN are current requirements in Form N-SAR.[1150]

Thus, as proposed, all funds are required, where applicable, to file attachments regarding legal proceedings,[1151] provision of financial support,[1152] independent public accountant's report on internal control,[1153] and changes in accounting principles and practices, where applicable.[1154] Unlike the proposal, however, the registrant will not be required under the form to file an attachment related to changes in the fund's independent public accountant (*i.e.*, information called for by Item 4 of Form 8-K under the Exchange Act). As previously discussed in section II.D.4.b above, this change was made in response to comments.[1155]

In addition, as in the proposal, all funds will be required, where applicable, to provide attachments relating to information required to be filed pursuant to exemptive orders issued by the Commission and relied on by the registrant,[1156] and other information required to be included

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[1149] With respect to certain attachments currently in Form N-SAR, we are integrating the data requirements into the form itself, rather than keep the attachment requirements. *See, e.g.*, Item 77.G and Item 102.F of Form N-SAR; 0 (default on long-term debt) and 0 (dividends in arrears) of 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).

[1150] *But see supra* footnote 1148.

[1151] 0 of Form N-CEN.

[1152] 0 of Form N-CEN.

[1153] 0 of Form N-CEN. As noted in 0, this item will only apply to management companies other than SBICs.

[1154] 0 of Form N-CEN.

[1155] *See supra* footnotes 860–867 and accompanying text.

[1156] 0 of Form N-CEN.

as an attachment pursuant to Commission rules and regulations.[1157] Moreover, we are adopting, as proposed, requirements for closed-end funds and SBICs to provide attachments, where applicable, relating to material amendments to organizational documents,[1158] instruments defining the rights of the holders of any new or amended class of securities,[1159] new or amended investment advisory contracts,[1160] information called for by Item 405 of Regulation S-K,[1161] and, for SBICs only, senior officer codes of ethics.[1162] As proposed, each attachment required by Form N-CEN includes instructions describing the information that should be provided in the attachment.[1163]

As noted earlier, all of the attachments required by Form N-CEN, except one, are currently required by Form N-SAR.[1164] The new attachment relates to the provision of financial support and will be filed by a fund (other than a money market 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.[1165] As discussed in section II.D.4.b, we are adopting this

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[1157] 0 of Form N-CEN.

[1158] 0 of 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.

[1159] 0 of Form N-CEN.

[1160] 0 of 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.

[1161] 0 of Form N-CEN.

[1162] 0 of Form N-CEN.

[1163] For example, the instructions to Item G.1.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.

[1164] *See supra* footnote 1150 and accompanying text.

[1165] 0 of Form N-CEN.

requirement, as proposed, and including it in Form N-CEN because we believe that it is important that the Commission understand the nature and extent to which a fund's sponsor provides financial support to a fund.

5. Items Required by Form N-SAR That Will be Eliminated by Form N-CEN

As we discussed above and in the Proposing Release, with Form N-CEN, we seek to modernize and improve the information that we collect in order to reflect changes in the fund industry since Form N-SAR's adoption in 1985. Accordingly, and substantially as proposed, we are not carrying forward certain items in Form N-SAR to Form N-CEN that we believe are no longer needed by Commission staff or are outdated in their current form. For example, in Form N-CEN, we are not including 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.[1166] Many commenters agreed that Form N-SAR is outdated and commended the Commission's efforts to improve the relevance of information reported to the Commission.[1167] Where we have received comments on specific reporting requirements, we discuss them in more detail below.

As proposed, Form N-CEN eliminates a number of Form N-SAR items where the information is (or will be) 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.[1168] Many of the fee and expense items required by Form

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[1166] Item 26 of Form N-SAR. Form N-CEN does, however, contain information relating to funds that paid commissions to brokers and dealers for research services. *See* 0 of Form N-CEN.

[1167] *See, e.g.*, ICI Comment Letter; SIFMA Comment Letter I; Invesco Comment Letter; BlackRock Comment Letter.

[1168] *See generally* Items 29–44 and Items 47–52 of Form N-SAR. Form N-CEN does, however, contain an item relating to expense limitations, reductions, and waivers. *See* 0 of Form N-CEN. As discussed

N-SAR are already reported, 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.[1169] 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.[1170] For similar reasons as above, we are also not requiring other information in 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, and certain other condensed balance sheet data items.[1171]

One commenter requested that the Commission include certain information required on Form N-SAR that was proposed to be eliminated in Form N-CEN.[1172] That commenter, for example, suggested that certain fee and expense information currently available semi-annually on Form N-SAR (*e.g.*, Items 34–44, 47–52, 54, 72, and 75) should carry over into Form N-CEN. As discussed above, we find the commenter's concerns persuasive with respect to Item 75 of

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above, Form N-CEN also requires information on management fees and net operating expenses for closed-end funds, as that information is not available elsewhere in a structured format. *See* 0 and 0 of Form N-CEN; *see also supra* section 0.

[1169] *See* General Instruction C.3.G to Form N-1A; *see generally* Form N-1A, Form N-2, Form N-4, Form N-5, and Form N-6.

[1170] 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, & David K. Musto, *What do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives*, J. OF FIN., Vol. 68(1), 201-235 (2013) ("Christoffersen Journal Article"). 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.

[1171] *See generally* Item 57, Item 61, and Items 70–74 of Form N-SAR.

[1172] *See* Morningstar Comment Letter.

Form N-SAR and have added a reporting requirement in Form N-CEN that (1) funds other than money market funds provide the fund's monthly average net assets during the reporting period, and (2) money market funds provide the fund's daily average net assets during the reporting period.[1173] Otherwise, we continue to believe that Form N-CEN strikes an appropriate balance between the current information needs of Commission staff as well as the developments in the fund industry and the reduction of reporting burdens for registrants where information may be similarly disclosed or reported elsewhere.

We are also eliminating, as proposed, 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.[1174] Additionally, with respect to the Form N-SAR item relating to closed-end fund monthly sales and repurchases of shares,[1175] this information will be reported on Form N-PORT,[1176] rather than Form N-CEN.

The full list of items from Form N-SAR that will be included in Form N-CEN or eliminated is included in Figure 2 below.

[1173] *See* discussion at *supra* footnotes 1016–1021 and accompanying text (discussing 0 of Form N-CEN.

[1174] *See* Item 86, Item 93, Item 95, Items 97–100, Items 103–104, Item 109, and Items 125–132 of Form N-SAR.

[1175] *See* Item 86 (closed-end funds) of Form N-SAR; *see also* Item 28 (management investment companies generally) of Form N-SAR.

[1176] *See* 0 of Form N-PORT.

INCLUSION OF FORM N-SAR DATA ITEMS IN FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 FORM N-CEN

FORM N-SAR ITEM NO.	DESCRIPTION	INCLUDED WITHOUT CHANGE	INCLUDED BUT MODIFIED	SIMILAR DATA WILL 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 Form N-CEN, similar data is or will be available through other sources, such as 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

E. Option for Website Transmission of Shareholder Reports

The Commission proposed new rule 30e-3 under the Investment Company Act, which would have permitted a fund to satisfy requirements under the Act and rules thereunder to transmit reports to shareholders if the fund made the reports and certain other materials accessible on a website. Reliance on the rule would have been subject to certain conditions, including conditions relating to (1) the availability of the shareholder report and other required information; (2) implied 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. The proposed option was intended to modernize the manner in which periodic information is transmitted to shareholders. When we proposed the rule, we stated that we believed it would improve the information's overall accessibility while reducing burdens such as printing and mailing costs that are borne by funds and, ultimately, by fund shareholders.[1177]

Proposed rule 30e-3 generated substantial public comment, with over 900 commenters expressing views on the rule. Comments received on the proposal were mixed. Many commenters expressed support for the proposed rule, citing, for example, positive internet access and use trends, consistency with the preferences of many investors, intra- and inter-agency regulatory consistency benefits, and anticipated reduction in printing and mailing expenses for funds and their shareholders.[1178] However, many other commenters expressed concerns with the proposed rule, arguing, for example, that the proposed rule would have potential adverse effects on investor readership of shareholder reports generally and on certain demographic groups in particular.[1179] Commenters also disagreed about the size and distribution of printing and mailing

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[1177] *See* Proposing Release, *supra* footnote 7, at 33626.

[1178] *See, e.g.*, BlackRock Comment Letter; ICI Comment Letter; Schnase Comment Letter.

[1179] *See, e.g.*, Comment Letter of Leah J. Adams (Jan. 9, 2016); Comment Letter of Anonymous (Jan. 10, 2016); Comment Letter of Julia Benson (Jan. 10, 2016); Comment Letter of Broadridge Financial Solutions, Inc. (Jan. 13, 2016) ("Broadridge Comment Letter"); Comment Letter of Julia Cole (Jan. 8, 2016); Comment Letter of Lisa A. Darling (Aug. 7, 2015); Comment Letter of Don (Jan. 10, 2016); Comment Letter of Keene Ferrer (Jan. 9, 2016); Comment Letter of Association of Free Community Papers (Aug. 11, 2015); Comment Letter of Anthony W. Golden (Aug. 11, 2015); Comment Letter of Patricia Hanbury (Jan. 10, 2016); Comment Letter of Zane Hollenberger (July 27, 2015); Comment Letter of Lucy James (Jan. 9, 2016); Comment Letter of Gary Kasufkin (Jan. 12, 2016); Comment Letter of Debbi Lambert (Aug. 6, 2015); Comment Letter of William D. Looman (Jan. 9, 2016); Comment Letter of Sharon L. McCain (Jan. 9, 2016); Comment Letter of National Association of Letter Carriers (Aug. 4, 2015); Comment Letter of Dan Oved (Jan. 8, 2016); Comment Letter of Tim Plunk (July 16, 2015); Comment Letter of Joanne Rock (Aug. 7, 2015); Comment Letter of Thomas Scibek (Aug. 10, 2015); Comment Letter of Robin Snyder (Aug. 6, 2015); Comment Letter of Teresa (Jan. 8, 2016); Comment Letter of Manuel E. Velosa, Jr. (Jan. 10, 2016); Comment Letter of Wise (Aug. 3, 2015); Form Letter Type A (7 copies received); Form Letter Type B (234 copies received);

expense savings that would result from the rule as proposed, particularly in the context of investors who purchase shares through intermediaries.[1180]

While the Commission plans to continue to consider how to promote electronic transmission to those who might prefer it, the comments discussed above raised issues with respect to this proposal that merit further consideration. We have, therefore, determined not to adopt proposed rule 30e-3 at this time.

F. Amendments to Forms Regarding Securities Lending Activities

We are also adopting form amendments that require a management investment company to disclose in its registration statement (or, in the case of a closed-end fund, its reports on Form N-CSR) certain disclosures regarding securities lending activities.[1181] We proposed similar requirements as part of the proposed amendments to Regulation S-X, including disclosure in the fund's financial statements 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 fund 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 fund 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

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Form Letter Type C (57 copies received); Form Letter Type D (93 copies received); Form Letter Type E (43 copies received).

[1180] *See, e.g.*, Broadridge Comment Letter; ICI Comment Letter.

[1181] *See* Item 19(i) of Form N-1A; Item 21(j) of Form N-3; Item 12 of Form N-CSR. Because closed-end funds do not offer their shares continuously, and are therefore generally not required to maintain an updated Statement of Additional Information to meet their obligations under the Securities Act, we are requiring closed-end funds to disclose their securities lending activities information annually on Form N-CSR.

directly or indirectly, including any fees paid directly by the fund 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.[1182] We proposed these disclosures in order to allow investors to better understand the income generated from, as well as the expenses associated with, a fund's securities lending activities.[1183]

We received a number of comments addressing our proposed securities lending disclosures. Comments on the proposed disclosure requirements were mixed. Most of the commenters who addressed the issue expressed support for requiring disclosure of securities lending income and fees, although some specifically opposed or expressed concerns about the proposed requirement to disclose the terms governing the compensation of the securities lending agent.[1184] Some commenters expressed opposition generally to the public nature of the proposed

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[1182] *See* proposed rule 6-03(m) of Regulation S-X; Proposing Release, *supra* footnote 7, at 33624.

[1183] *See id.*

[1184] *See* AICPA Comment Letter (stating that the requirements would provide meaningful information to investors and other potential users and allow them to better understand the fund's securities lending activities, except for disclosure of the terms governing the compensation of the securities lending agent other than for related parties); BlackRock Comment Letter (stating that "investor protection is well served by a level playing field that allows investors to make informed choices on a risk adjusted basis" and that uniform and clear information requirements associated with securities lending activities will empower mutual fund directors to more effectively evaluate and compare securities lending services); Deloitte Comment Letter (opposing required financial statement disclosure of indirect fees); Fidelity Comment Letter (expressing support for enabling investors to better understand the income generated from securities lending activity and all proposed disclosures except for fee split with a third-party lending agent); ICI Comment Letter (expressing support for the proposed requirements except the required public disclosure of the terms governing the compensation of the securities lending agent); PwC Comment Letter (opposing the proposed financial statement disclosure requirement of the terms of compensation, including any revenue sharing split, while stating that the categories of disclosure would provide meaningful information to readers); RMA Comment Letter (opposing a requirement to disclose borrower rebates and recommending that, if required, revenue sharing percentage disclosure be calculated using the fund's net lending income and fees paid during the reporting period); Simpson Thacher Comment Letter (opposing required public disclosure of securities lending splits); State Street Comment Letter (opposing disclosure requirement for borrower rebates and recommending requirements for actual income and fees paid rather than contractual terms); *cf.* BlackRock Directors Comment Letter (stating, in the context of proposed Form

new disclosure requirements concerning fund securities lending activities.[1185] Some commenters also expressed particular concerns relating to the location of the required disclosure in the fund's financial statements.[1186]

We continue to believe that because net earnings from securities lending can contribute to the investment performance of a fund, investors and others would benefit from the additional transparency into the impact of securities lending fees on the income from these activities and further believe that the benefits of this additional transparency justify the potential unintended consequences, highlighted by commenters and discussed below, of public disclosure of certain information. We have, however, made certain modifications to the proposed requirements in an effort to mitigate some of these potential consequences.[1187] As discussed in greater detail below, these modifications include, for example, replacing the proposed requirement that funds disclose the terms governing the compensation of the securities lending agent—including any revenue split—with a requirement to report actual fees paid during the fund's prior fiscal year, because commenters persuaded us that backward-looking dollar-based requirements would yield clearer disclosure than would the proposed requirements and may also enhance disclosure comparability across funds for investors and reduce preparation complexity for funds.

N-CEN requirements, that "[i]mproved transparency as to the economic terms in the market for securities lending services will assist independent directors in assessing annually the customary charges imposed for such services").

[1185] *See* Invesco Comment Letter (opposing required public disclosure of fund's securities lending activities); MFS Comment Letter (opposing required public disclosure of securities lending fees); SIFMA Comment Letter I (opposing public disclosure requirements concerning financial arrangements of fund securities lending activities); Wells Fargo Comment Letter (opposing required public disclosure of securities lending income and expenses); *cf.* IDC Comment Letter (opposing required public disclosure of compensation and other fee and expense information relating to securities lending arrangements).

[1186] *See infra* note 1190.

[1187] *See infra* footnotes 1212–1219 and accompanying text.

1. Determination to Adopt Requirements as Amendments to Registration Statement and Annual Report Forms

As proposed, certain disclosures relating to securities lending activities, including income and expenses, would have been required to be included in a fund's financial statements.[1188] However, we sought public comment on whether the proposed or similar disclosures should instead be provided as part of other disclosure documents such as the Statement of Additional Information.[1189] In response, some commenters raised concerns about including this information in the fund's financial statements, including concerns about cost and that lengthy disclosure concerning securities lending activity in a fund's financial statements could detract from other financial statement disclosures.[1190] After consideration of these issues raised by commenters, we have determined that it is appropriate to require funds to include these disclosures in their Statements of Additional Information (or, for closed-end funds, in their reports on Form N-CSR), rather than to require their inclusion in fund financial statements. Therefore, we are adopting these disclosure requirements as amendments to the fund registration forms (*viz.*, Forms N-1A and N-3) and reports on Form N-CSR (for closed-end funds only), rather than as amendments to Regulation S-X.[1191]

[1188] *See* proposed rule 6-03(m) of Regulation S-X; Proposing Release, *supra* footnote 7, at 33624.

[1189] *See* Proposing Release, *supra* footnote 7, at 33625.

[1190] *See* Deloitte Comment Letter (noting that indirect fees "are typically management's estimate that is imprecise" and stating that additional costs of auditing the disclosure of these fees "would most likely outweigh any benefits of reporting this information"); EY Comment Letter (stating that "the proposed disclosures would result in the presentation of detailed information with varying degrees of usefulness that could detract from other material information presented in the financial statements" and recommending that "the Commission use other reporting mechanisms more suited for that purpose").

[1191] *See* Item 19(i) of Form N-1A; ; Item 21(j) of Form N-3; Item 12 of Form N-CSR.

2. Requirement to Disclose Securities Lending Income, Expenses, and Services

As discussed in detail below, the final rules will require funds to disclose gross and net income from securities lending activities, fees and compensation in total and broken out by enumerated types, and a description of the services provided to the fund by the securities lending agent. We proposed to require disclosure of gross income from securities lending, including income from cash collateral reinvestment;[1192] the dollar amount of fees and compensation paid by the fund for securities lending activities and related services, including borrower rebates and payments for cash collateral management services;[1193] the net income from securities lending activities;[1194] the details of any other fees paid directly or indirectly, including any fees paid directly by the fund for cash collateral management and any management fee deducted from a pooled investment vehicle in which cash collateral is invested;[1195] and the terms governing the compensation of the securities lending agent, including any revenue sharing split, with the related percentage split between the fund and the securities lending agent, and/or any fee for service and a description of services included.[1196] After consideration of issues raised by commenters, we are generally adopting the substance of the proposed fee disclosure requirements but are requiring funds to make these disclosures in their Statements of Additional Information (or, in the case of a closed-end fund, Form N-CSR) rather than as part of their financial statements (as proposed). We are amending the Statement of Additional Information requirements in Forms N-1A and N-3, and Form N-CSR (for closed-end funds) to require funds

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[1192] Proposed rule 6-03(m)(1) of Regulation S-X.

[1193] Proposed rule 6-03(m)(2) of Regulation S-X.

[1194] Proposed rule 6-03(m)(3) of Regulation S-X.

[1195] Proposed rule 6-03(m)(5) of Regulation S-X.

[1196] Proposed rule 6-03(m)(4) of Regulation S-X.

to disclose dollar amounts of income and fees and compensation paid to service providers related to their securities lending activities during their most recent fiscal year, as illustrated in Table 1 below.[1197]

SECURITIES LENDING ACTIVITIES

Gross income from securities lending activities	**$** _____
Fees and/or compensation for securities lending activities and related services	
Fees paid to securities lending agent from a revenue split	$ _____
Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split	$ _____
Administrative fees not included in revenue split	$ _____
Indemnification fee not included in revenue split	$ _____
Rebate (paid to borrower)	$ _____
Other fees not included in revenue split (specify)	$ _____
Aggregate fees/compensation for securities lending activities	**$** _____
Net income from securities lending activities	**$** _____

Table 1

The modifications from the proposed requirements are designed to, among other things, enhance comparability of the disclosed information and potentially ameliorate some concerns commenters expressed about the proposed required public disclosure of the terms governing compensation of the securities lending agent. Several commenters expressed concern that the proposed disclosure requirements could yield information that would suggest, inaptly, that fees and expenses related to securities lending activities among funds are readily compared and contrasted.[1198] Specifically, one commenter highlighted that information provided under the

[1197] *See* Item 19(i)(1) of Form N-1A; ; Item 21(j)(i) of Form N-3; Item 12(a) of Form N-CSR. The disclosure need not be presented in a tabular format.

[1198] *See* MFS Comment Letter; PwC Comment Letter.

proposed requirements might not be comparable due to the subjectivity of related inputs and assumptions.[1199] Another commenter, however, suggested that we could facilitate comparability by specifying the fees for particular services that must be disclosed.[1200] We have considered these commenters' views and suggestions and have been persuaded to specify in the final rules which specific fees should be disclosed and what those fees should include rather than requiring, as proposed, disclosure of all fees and/or compensation paid for securities lending and related services *without* specifying which fees should be disclosed.[1201] We believe that these modifications will enhance comparability of the disclosed fees and compensation. The list of specific fees we are enumerating has been adapted from the list of securities lending payments about which reporting will be required by Form N-CEN, which, as discussed above, we are adopting as proposed.[1202] We have determined that, in specifying the specific categories of fees that are required to be disclosed, it is appropriate to adapt the list of fees from proposed Form N-CEN because consistency between the two lists will allow for better comparability of information from reports on Form N-CEN and disclosures in funds' Statements of Additional Information and, with respect to closed-end funds, reports on Form N-CSR.

[1199] *See* MFS Comment Letter. The commenter did not provide examples of specific subjective inputs and assumptions in connection with the terms of securities lending expenses.

[1200] *See* Fidelity Comment Letter.

[1201] Item 19(i)(1)(ii) of Form N-1A (requiring disclosure of all fees and/or compensation for each of the following securities lending activities and related services: any share of revenue generated by the securities lending program paid to the securities lending agent or agents—the "revenue split"; fees paid for cash collateral management services—including fees deducted from a pooled cash collateral reinvestment vehicle—that are not included in the revenue split; administrative fees that are not included in the revenue split; fees for indemnification that are not included in the revenue split; rebates paid to borrowers; and any other fees relating to the securities lending program that are not included in the revenue split, including a description of those fees); Item 21(j)(i)(B) of Form N-3 (same); Item 12(a)(2) of Form N-CSR (same). If a fee for a service is included in the revenue split, state that the fee is "included in the revenue split." Instruction to Item 19(i)(1) of Form N-1A; Instruction to Item 21(j)(i) of Form N-3 (same); Instruction (a) to Item 12 of Form N-CSR (same).

[1202] *See* Item 30.e of proposed Form N-CEN; 0 of Form N-CEN; *supra* section 0.

The comparability of the disclosed fee and expense information may also depend on the nature of the services provided to a particular fund in connection with its securities lending activities. To that end, we proposed a disclosure requirement for a description of services included in the fund's arrangement with its securities lending agent.[1203] One commenter suggested robust disclosure of the services provided by the securities lending agent and provided several examples of the types of services that should be disclosed to improve comparability.[1204] The commenter stated that it had observed a lack of uniformity in the package of services performed by securities lending agents, which can hinder understanding of securities lending fees.[1205] We agree with the commenter that enhanced and more comparable disclosure of services provided can help users of the information to better understand the particular services provided by securities lending agents for the aggregate fees they were paid over the reporting period. Accordingly, to further enhance the comparability of the disclosed information and allow users to better assess fee and expense information, we have determined to specify that this information should be provided on the basis of the services actually provided to the fund in its most recent fiscal year. Some examples of the types of services that could be enumerated include, as applicable, locating borrowers, monitoring daily the value of the loaned securities and collateral, requiring additional collateral as necessary, cash collateral management, qualified dividend management, negotiation of loan terms, selection of securities to be loaned, recordkeeping and account servicing, monitoring dividend activity and material proxy votes

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[1203] Proposed rule 6-03(m)(4) of Regulation S-X.

[1204] *See* BlackRock Directors Comment Letter (suggesting such a requirement in the context of reports on Form N-CEN).

[1205] *Id.*

relating to loaned securities, and arranging for return of loaned securities to the fund at loan termination.[1206]

Another commenter expressed concerns that the proposed fee and expense information could be used to evaluate the terms of a fund's lending arrangements and could, without access to additional information, result in potentially inappropriate conclusions that a fund negotiated its arrangements poorly or was otherwise disadvantaged in its negotiations.[1207] That commenter noted that the revenue split can depend on numerous factors, including the range, amount, and attractiveness of the securities a fund complex as a whole may make available for loan.[1208] Two commenters suggested eliminating the proposed requirement for disclosure of borrower rebates, reasoning that they are primarily a function of prevailing short-term interest rates.[1209] However, we continue to believe that it is appropriate to require disclosure of borrower rebates, because, irrespective of how they may be determined in particular cases, they are nonetheless an expense of securities lending. One commenter argued that a fund board wishing to evaluate the fund's securities lending program would have access to more detailed analyses than could be practically included in the fund's financial statements.[1210] Conversely, another commenter stated that uniform and clear information requirements would have the benefit of empowering more effective evaluation and comparison of securities lending services.[1211] While, as commenters

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[1206] Item 19(i)(2) of Form N-1A (requiring disclosure of the services provided to the fund by the securities lending agent); Item 21(j)(ii) of Form N-3 (same); Item 12(b) of Form N-CSR (same).

[1207] PwC Comment Letter (particularly with respect to the proposed terms of compensation disclosure requirement); *see also* RMA Comment Letter (concerning borrower rebates).

[1208] PwC Comment Letter.

[1209] RMA Comment Letter; State Street Comment Letter.

[1210] PwC Comment Letter.

[1211] *See* BlackRock Comment Letter.

suggested, a thorough evaluation of a fund's securities lending activities, such as an evaluation by that fund's board, may appropriately include information beyond the scope of the disclosure requirements we are adopting today, we believe that these new requirements will nonetheless enhance comparability and allow investors to better understand the expenses associated with securities lending activities. We also note that today's amendments are not meant to circumscribe the factors to be rightfully considered in such an evaluation.

Commenters also expressed concerns with the proposed requirements based on the currently nonpublic character of some of the information that would be required to be disclosed publicly, particularly the proposed requirement to disclose the terms governing compensation of the securities lending agent.[1212] Commenters argued that some funds currently enjoy privately negotiated competitive advantages with securities lending services or counterparties that could be jeopardized should their arrangements with their securities lending agents be made public.[1213] We continue to believe, however, that the required fee information will allow investors to better understand the expenses associated with securities lending activities and have therefore determined to adopt these modified disclosure requirements with modifications to address commenters' concerns. We believe that the modifications to the proposed requirements that we are making today eliminate the disclosures from the proposed requirements that some commenters indicated could be the most sensitive—specifically, the terms of the revenue split

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[1212] *See* AICPA Comment Letter (particularly concerned with respect to the terms governing the compensation of the securities lending agent); Fidelity Comment Letter (particularly concerned with respect to the revenue split); ICI Comment Letter; Invesco Comment Letter; MFS Comment Letter; SIFMA Comment Letter I; Simpson Thacher Comment Letter (particularly concerned with respect to the revenue split); Wells Fargo Comment Letter.

[1213] *See* AICPA Comment Letter; Fidelity Comment Letter; ICI Comment Letter; Invesco Comment Letter; MFS Comment Letter; SIFMA Comment Letter I; Simpson Thacher Comment Letter; Wells Fargo Comment Letter.

and the terms governing the compensation of the securities lending agent more generally—while retaining the required information that we think will be most useful to investors in understanding the expenses associated with fund securities lending activities.

In particular, some commenters suggested that, rather than requiring disclosure of the terms governing the compensation of the securities lending agent, as we proposed,[1214] we consider instead requiring disclosure of backward-looking actual compensation levels.[1215] One of these commenters argued that, because there are a variety of fee arrangements in the marketplace, such an alternative disclosure requirement may provide a clearer, more concise view of each party's compensation.[1216] We have been persuaded by these commenters' suggestions that backward-looking dollar-based requirements would yield clearer disclosure than would the proposed requirements and may also enhance disclosure comparability across funds for investors and reduce preparation complexity for funds and thus have modified the requirements accordingly.[1217] This dollar-based requirement would also eliminate the requirement that potentially sensitive negotiated contractual terms be disclosed, while nonetheless allowing investors to better understand the expenses associated with securities lending activities. A commenter also counseled against placing undue emphasis on the securities lending agent's revenue split at the expense of other securities lending fees and expenses,[1218] and we believe that the schedule of fees and expenses we are requiring to be disclosed places an

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[1214] *See* proposed rule 6-03(m)(4) of Regulation S-X.

[1215] *See* RMA Comment Letter (recommending that funds report a calculated split based on a fund's actual net lending income and fees paid during the reporting period); State Street Comment Letter.

[1216] State Street Comment Letter.

[1217] Item 19(i)(1)(ii) of Form N-1A; Item 21(j)(i)(B) of Form N-3; Item 12(a)(1) of Form N-CSR.

[1218] *See* Fidelity Comment Letter.

appropriate level of emphasis on that figure situated among the other required fee and expense disclosures.[1219]

We also proposed to require disclosure of gross income from securities lending, including income from cash collateral reinvestment,[1220] as well as net income.[1221] We did not receive comments specific to these proposed requirements. We are adopting the proposed requirement to disclose gross income from securities lending activities. Moreover, as further clarification about the types of income that could be included in this total, we note that—in addition to income from cash collateral reinvestment—disclosed gross income may also include negative rebates (*i.e.*, those paid by the borrower to the lender), loan fees paid by borrowers when collateral is noncash, management fees from a pooled cash collateral reinvestment vehicle that are deducted from the vehicle's assets before income is distributed, and any other income.[1222] We are adopting the proposed requirement to disclose net income and clarifying that the reported figure should be equal to the difference between gross income and aggregate fees/compensation.[1223]

[1219] *See supra* Table 1.

[1220] Proposed rule 6-03(m)(1) of Regulation S-X.

[1221] Proposed rule 6-03(m)(3) of Regulation S-X.

[1222] Item 19(i)(1)(i) of Form N-1A; ; Item 21(j)(i)(A) of Form N-3 (same); Item 12(a)(1) of Form N-CSR. Gross income for purposes of this disclosure generally should include indirect fees paid for cash collateral management services—*i.e.*, management services provided to a pooled investment vehicle in which cash collateral is invested. Those fees are indirect because they are taken from the pooled assets before any income is distributed to the lending fund. In order for the net income disclosure from securities lending to sum to the net income for securities lending reported at period end, we believe that indirect fees for cash collateral management generally should be added to the gross income from securities lending in the Statement of Additional Information or, with respect to closed-end funds, in reports on Form N-CSR.

[1223] Item 19(i)(1)(iv) of Form N-1A; Item 21(j)(i)(D) of Form N-3; Item 12(a)(4) of Form N-CSR.

3. Required Disclosures of Monthly Average Value on Loan

We also proposed to require disclosure of the monthly average of the value of portfolio securities on loan.[1224] As discussed above, we have determined to adopt a similar requirement in Form N-CEN where it will be available in a structured data format and are not including it in the amendments to Forms N-1A, N-3, and N-CSR.[1225]

G. Technical and Conforming Amendments

As proposed, we are also adopting technical and conforming amendments to various rules and forms. As discussed above, we are rescinding Form N-Q and adopting new Form N-PORT. In order to implement this change, we are revising 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.[1226] In addition, we are rescinding 17 CFR 249.332 and revising 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.

We are also rescinding Form N-SAR and replacing it with new Form N-CEN. In order to implement this change, we are revising the following rules and sections to remove references to Form N-SAR and replacing 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, 17 CFR 274.101, and Form N-8F.[1227]

[1224] *See* proposed rule 6-03(m)(6) of Regulation S-X.

[1225] *See supra* footnotes 969–972 and accompanying text.

[1226] *See* Instruction 3(b) to Item 16(f) of Form N-1A; Instruction 4 to Item 27(d)(1) of Form N-1A; Instruction 6.b to Item 24 of Form N-2; Instruction 6(ii) to Item 28(a) of Form N-3; Instruction 3(b) to Item 19(e)(ii) of Form N-3.

[1227] Although we are deleting references to Form N-SAR in 17 CFR 232.301, we are not replacing 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.

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 we are requiring reports on Form N-CEN to be filed annually by all registered investment companies, we are rescinding 17 CFR 270.30b1-1 and revising 17 CFR 270.30a-1 to require all registered investment companies to file reports on Form N-CEN. We are also revising the following rules to remove references to 17 CFR 270.30b1-1 and add references to revised 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 are rescinding 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 adopting new rule 17 CFR 270.30a-4—which will permit wholly-owned management investment company subsidiaries of management investment companies to not file Form N-CEN under those same circumstances. We are also amending 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.[1228]

[1228] *See infra* section IV.

Our amendments to Regulation S-X will, among other things, require management investment companies to report new schedules for certain derivatives holdings.[1229] To implement these changes, we are renumbering the sections for schedules required to be reported by management investment companies and renumbering the list of schedules provided in 17 CFR 210.6-10, which outlines the schedules to be reported by investment companies.[1230] We are also adopting conforming changes to references to Regulation S-X in the following forms: Form N-1A, Form N-2, Form N-3, and Form N-14.[1231]

We are also amending Form N-CSR to revise instructions addressing how disclosures and certifications as to the effectiveness and changes in the registrant's internal control over financial reporting should be handled during the transition period when certifications for funds' portfolio holdings for their first and third fiscal quarters will no longer be provided on Form N-Q but instead will provided on Form N-CSR.[1232] In the Proposing Release we proposed deleting these instructions, but we are revising the instructions to clarify how these disclosures and

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[1229] Our amendments require new schedules to be filed to report open futures contracts, open forward foreign currency contracts, and open swap contracts. *See* new rules 12-13A–C of Regulation S-X.

[1230] Among other things, our amendments will 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 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 list the summary schedule sequentially after the investments in securities of unaffiliated issuers. We are also amending 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* amended rule 6-10 of Regulation S-X (listing the schedules required to be filed by management investment companies, UITs, and face-amount certificate companies).

[1231] *See* Item 27(b)(1) of Form N-1A (reference to schedule VI changed to schedule IX and reference to schedule I are corrected to cite to the appropriate CFR section); Instruction 7 to Item 24 of Form N-2 (we are updating references to schedule VI); Instruction 7(i) and (ii) to Item 28(a) of Form N-3 (we are updating references to schedule VI).

[1232] Item 11 and Item 12 of Form N-CSR.

certifications shall be handled with regards to smaller entities as opposed to larger entities during the transition period.

We are also removing and reserving paragraph (a) of 17 CFR 232.105, which currently requires electronic filers to submit Forms N-SAR and 13F in ASCII. We are rescinding Form N-SAR, and Form 13F has been submitted by electronic filers in XML, rather than ASCII, since 2013.[1233] Although we also proposed to revise the section heading of 17 CFR 232.105 and redesignate paragraphs (b) and (c) as (a) and (b), respectively, upon further consideration we believe those changes are unnecessary at this time.

We received no comments on these technical and conforming amendments, and are adopting them substantially as proposed, as discussed herein.

H. Compliance Dates

We are adopting the following compliance dates for our amendments, as set forth below.

1. Form N-PORT, Rescission of Form N-Q, and Amendments to the Certification Requirements of Form N-CSR

As proposed, given the nature and frequency of filings on Form N-PORT, the Commission is providing 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"[1234] have net assets of $1 billion or more as of the end of the

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[1233] *See* SEC, Announcement: Notice to EDGAR Form 13F Filers (Mar. 29, 2013), *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).

[1234] For these purposes, the threshold is based on the definition of "group of related investment companies," as such term is defined in rule 0-10 under the Investment Company Act [17 CFR 270.0-10]. 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 […] In the case of a unit investment trust, the term group of related investment companies shall mean two or

most recent fiscal year of the fund—we are adopting a compliance date of June 1, 2018. This will result in larger funds filing their first reports on Form N-PORT, reflecting data as of June 30, no later than July 30, and will provide those funds with a compliance period of at least 18 months, consistent with our proposal. For these entities, we expect that this period of time will 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 new Form N-PORT with the Commission.[1235]

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 of the fund),[1236] the compliance date will be June 1, 2019. This will provide smaller entities an extra 12 months, as proposed, to comply with the new reporting requirements. We believe that smaller groups will benefit from this extra time to comply with the filing requirements for Form N-PORT and will potentially benefit from the lessons learned

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more unit investment trusts (including series thereof) that have a common sponsor." We believe that this broad definition will encompass most types of fund complexes and therefore is an appropriate definition for compliance date purposes.

[1235] We believe that this compliance period for larger groups of investment companies is an adequate amount of time for funds to implement new Form N-PORT and make the necessary system and operational changes. We adopted a nine month compliance period 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* footnote 447, at 10087.

[1236] Based on staff analysis of data obtained from Morningstar Direct, as of June 30, 2016, we estimate that a $1 billion assets threshold would provide an extended compliance period to more than 67% of fund groups, but only 0.6% of all fund assets. We therefore believe that the $1 billion threshold will 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.

by larger investment companies and groups of investment companies during the adoption period for Form N-PORT.

In the Proposing Release, we stated that we intended to rescind Form N-Q and require implementation of the amendments to the certification requirements of Form N-CSR within a timing that would be consistent with this adoption. We received no comments on this aspect of the proposal. Therefore, consistent with the timing for the implementation of reporting requirements for Form N-PORT, we are also rescinding Form N-Q (referenced in 17 CFR 274.130) and implementing the amendments to the certification requirements of Form N-CSR (referenced in 17 CFR 274.128) with approximately the same time frame. However, we are delaying the rescission of Form N-Q by two additional months to allow funds sufficient time to satisfy Form N-Q's 60-day filing requirements with regard to their final filing on Form N-Q for the reporting period preceding their first filing on Form N-PORT. Thus, the compliance dates for the amendments to the certification requirements of Form N-CSR will be June 1, 2018 for larger entities, and June 1, 2019 (12 months later) for smaller entities. Form N-Q and related rules referencing Form N-Q will be rescinded two months later, on August 1, 2019. In addition, as discussed below, the compliance date for reporting a change in independent public accountant on Form N-CSR will be consistent with the compliance date for other information reported on Form N-CEN.[1237]

We understand that certain changes to issuers' and market participants' systems may not be able to occur until the final technical requirements are published in the EDGAR Filer Manual and EDGAR Technical Specifications documents. In order to provide issuers and other filers time to make adjustments to their systems, we anticipate making a draft of the EDGAR

[1237] *See infra* section II.H.2.

Technical Specifications documents available in advance. We believe that test submissions may assist both the Commission and issuers with addressing unknown and unforeseeable issues that may arise with the reporting of information on Form N-PORT. We will permit funds to file test submissions during a trial period.

Additionally, we have determined to maintain as nonpublic all reports filed on Form N-PORT for the first six months following June 1, 2018. We believe that, separate from the voluntary trial, having a time period where all funds are required to file reports on Form N-PORT with the Commission but not have those reports disclosed publicly will allow funds and the Commission to make adjustments to fine-tune the technical specifications and data validation processes. We believe that this process can ultimately improve the data that is reported to the Commission and, as required disclosed to the public. Accordingly, we find that it is neither necessary nor appropriate in the public interest or for the protection of investors to make reports filed on Form N-PORT during the first six months following the compliance date publicly available.[1238] However, portfolio information attached as exhibits to Form N-PORT for the first and third quarters of a fund's fiscal year will still be made public during this period, to ensure that information about funds' portfolio holdings continues to be publicly available to investors and other users during the six month period when reports on Form N-PORT will not be made publicly available.[1239]

One commenter did not explicitly address compliance dates for Form N-PORT, but suggested that the compliance period for Regulation S-X be changed to 18 months so that Form

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[1238] *See* section 45(a) of the Investment Company Act.

[1239] *See supra* section 0 (discussing exhibits to Form N-PORT).

N-PORT and the amendments to Regulation S-X would have the same compliance date.[1240] Other commenters suggested extending the compliance period for Form N-PORT for all funds, including specific recommendations for 24 months, 30 months, or 36 months after the later of the effective date for this rulemaking or the adoption of amendments requiring funds to report liquidity information on Form N-PORT.[1241]

We are adopting an initial compliance date for Form N-PORT of June 1, 2018, which is consistent with the 18-month compliance period we proposed. As discussed above, we anticipate that the information that will be reported on Form N-PORT will enable us to further our mission to protect investors by assisting us in carrying out our regulatory responsibilities related to the asset management industry. We believe that it is important for the Commission to obtain and benefit from such information as soon as it is reasonably possible for this information to be reported. Although several commenters recommended extending the compliance period in order to update reporting systems,[1242] based in part upon our experience with Form N-MFP reporting implementation, we continue to believe that 18 months for larger entities and 30 months for smaller entities will provide sufficient time for funds and their service providers to prepare to file reports on Form N-PORT.

[1240] *See* State Street Comment Letter (stating that "[m]any of the changes to disclosures for derivatives are aligned with the information required within Form N-PORT and will require significant enhancements to systems").

[1241] *See, e.g.*, Dreyfus Comment Letter (compliance date of 24 months after the effective date); SIFMA Comment Letter I (later of 24 months following adoption or six months following publication of the final XML data structure for Form N-PORT); Fidelity Comment Letter (30 months after the effective date); ICI Comment Letter (30 months after the effective date of Form N-PORT or the requirement to report liquidity information on Form N-PORT); Oppenheimer Comment Letter (30 months after the effective date); Pioneer Comment Letter (36 months after the effective date).

[1242] *See, e.g.*, Fidelity Comment Letter; Vanguard Comment Letter; Pioneer Comment Letter; and Invesco Comment Letter.

Separately, as discussed above, our adoption includes numerous modifications from or clarifications to the proposal that address concerns raised by commenters and that are intended, in part, to decrease reporting and implementation burdens relative to the proposal. For example, we have added an instruction to Form N-PORT specifying that funds must report portfolio information on the same basis used in computing NAV, which is generally a T+1 basis, rather than on a T+0 basis, which is currently used for financial statement reporting. Several commenters asked for this clarification, as filing on a T+0 basis would have required time-intensive conversion of portfolio transactions normally recorded on a T+1 basis.[1243] We are also permitting funds to attach Regulation S-X compliant portfolio holdings schedules to Form N-PORT within 60 days after the end of the first and third fiscal quarters as opposed to our proposed 30 days, thus allowing funds to focus on preparing their Form N-PORT filings as opposed to also preparing their Regulation S-X compliant portfolio holdings schedules simultaneously.[1244] More generally, we are permitting a fund to generally use its own methodology or the methodology of its service provider, so long as the methodology is consistently applied and is consistent with the way the fund reports internally and to current and prospective investors, which should help circumvent operational challenges that would have arisen if firms had attempted to standardize reporting of certain non-standardized information such as country of risk for each portfolio holding.[1245]

Several commenters suggested that the Commission should provide for a phase-in period based on a fund's fiscal year-end, such that the Commission would require each fund to first

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[1243] *See supra* footnotes 74-76 and accompanying text.

[1244] *See supra* footnote 438 and accompanying and following text.

[1245] *See supra* footnote 79 and accompanying and following text.

begin filing its Form N-PORT as of its next fiscal year following the compliance date.[1246] We decline to adopt this suggestion. A rolling compliance period based on fiscal year would mean that some funds would be filing reports on Form N-PORT while other funds would be filing reports on Form N-Q for the same reporting period, which would delay the Commission and other users from obtaining complete information about the industry on Form N-PORT for up to a year. Commission staff believes that this would diminish the value of the information reported on Form N-PORT in terms of assessing industry trends, identifying outliers, and monitoring industry developments, because only a portion of the industry would be filing reports on Form N-PORT each month in a structured data format. This would also create complexities for investors who might not understand why some of their funds would be reporting on one form while other funds would be reporting on a different form, and would diminish the ability of investors to compare the information reported by one fund with information reported by another fund if each fund reported information on a different form. While our staggered compliance approach will also result in some funds reporting on Form N-PORT while others are still reporting on Form N-Q, the difference will be less significant than with a rolling compliance date because under our approach only smaller funds representing a relatively small proportion of assets will continue to use Form N-Q after the initial compliance date.

One commenter suggested that the Commission should consider limiting liability for Form N-PORT filings for a transition period, similar to what was done with earlier structured

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[1246] *See* ICI Comment Letter (recommending a rolling compliance period, with each fund not required to file Form N-PORT until the beginning of its next fiscal year following 30 months after the effective date); Invesco Comment Letter (same, except each fund not required to file Form N-PORT until the beginning of its next fiscal year following 36 months after the effective date).

data reporting rules.[1247] We decline to adopt this suggestion. In the prior structured data reporting rules, filers were required to report the same information in both structured and non-structured formats, with limited liability for the information reported in a structured format and full liability for that same information when reported in a non-structured format. In this case, the information will be reported on Form N-PORT in only a structured data format.

One commenter suggested raising the asset threshold for determining the larger entities that would be required to comply with Form N-PORT filing requirements following an 18 month compliance period, as opposed to 30 months for smaller entities that fell below the asset threshold.[1248] As discussed above, we estimate that our proposed $1 billion assets threshold will provide an extended compliance period to more than 67% of the fund groups, but only 0.6% of all fund assets, and therefore believe that the $1 billion threshold will 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.[1249]

2. Form N-CEN, Rescission of Form N-SAR, and Amendments to the Exhibit Requirements of Form N-CSR

We are adopting a compliance date of June 1, 2018 to comply with the new Form N-CEN reporting requirements. We expect that this compliance period, consistent with the 18 month compliance period that we proposed, will provide an adequate period of time for funds,

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[1247] *See* Simpson Thacher Comment Letter (for a two-year transition period, structured data filings remained subject to standard antifraud provisions under federal securities laws, but were not subject to section 34(b) of the Investment Company Act of 1940 or section 18 of the Securities Exchange Act of 1934). *See also* Interactive Data to Improve Financial Reporting, Investment Company Act Release No. 28609 (Jan. 30, 2009) [74 FR 6776 (Feb. 10, 2009)].

[1248] *See* Simpson Thacher Comment Letter.

[1249] *See supra* footnote 1236.

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 Form N-CEN with the Commission. We are adopting the same compliance date for the related amendments to other rules and forms we are adopting today, including the rescission of Form N-SAR and related rules referencing Form N-SAR.[1250]

We also are adopting a compliance date of June 1, 2018 to comply with the modified reporting requirement for a registrant to file as an exhibit to Form N-CSR the letter reporting a change in independent registered public accountants. This exhibit was already required to be reported semi-annually on Form N-SAR, and as such, we do not expect that registrants will require significant amounts of time to modify systems or establish internal processes to prepare exhibit filings on Form N-CSR in accordance with our amendments.

Unlike Form N-PORT, we are not providing a tiered compliance date based on asset size. We believe that it is less likely that smaller fund complexes will 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 requiring all funds, regardless of size, to file reports on Form N-CEN with the same compliance period.

Furthermore, unlike Form N-PORT, we are not keeping reports filed during a phase in period after the compliance date nonpublic. Much of the information that will be filed on Form N-CEN is currently already reported by funds on Form N-SAR, and thus funds should already have processes and procedures in place to reduce the risk of inadvertent errors. In addition,

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[1250] We similarly are rescinding Form N-SAR (referenced in 17 CFR 274.101) with a timing that is consistent with this adoption.

filings on Form N-CEN are not expected to be as technically complex nor present comparable challenges in terms of reporting and data validation as filings on Form N-PORT. However, as with Form N-PORT, we anticipate allowing funds to file test submissions on Form N-CEN on a voluntary basis for a period of time before the compliance date.

Some commenters suggested that the compliance period be extended to the later of 30 months after the adoption of Form N-CEN, or 18 months after the effective date of amendments requiring funds to report liquidity information on Form N-CEN.[1251] We decline to adopt these suggestions. As discussed above, much of the information that will be reported on Form N-CEN is currently already reported by funds on Form N-SAR, and was reported by funds pursuant to a six-month compliance period upon our adoption of Form N-SAR.[1252] One commenter also estimated in the Form N-PORT context that implementing processes to report structured information in an XML format would take six months following publication of the final XML data structure.[1253] We therefore continue to believe, based in part upon this comment and also our prior experience with implementation of reporting requirements for Form N-SAR, that 18 months is an appropriate compliance period for Form N-CEN.

[1251] *See, e.g.,* Fidelity Comment Letter (suggesting a compliance date of 30 months after the adoption of Form N-CEN); MFS Comment Letter (same); CAI Comment Letter (same); IDC Comment Letter (same); Comment Letter of David W. Blass, General Counsel, Investment Company Institute (Jan. 13, 2016) (suggesting the later of 30 months after the adoption of Form N-CEN or 18 months after the adoption of amendments requiring funds to report liquidity information on Form N-CEN).

[1252] *See* Form N-SAR; Temporary Suspension of Quarterly Reporting Obligations of Certain Registered Investment Companies Pending Receipt of Comments on Proposed Final Action, Investment Company Act Release No. 14299 (Jan. 4, 1985) [50 FR 1442 (Jan. 11, 1985)].

[1253] *See* SIFMA Comment Letter I (estimating how long it would take to implement processes to report structured information in an XML format for Form N-PORT).

3. Regulation S-X, Statement of Additional Information, and Related Amendments

As discussed above, our amendments to Regulation S-X are largely consistent with existing fund disclosure practices. As such, we do not expect that funds, intermediaries, or service providers will require significant amounts of time to modify systems or establish internal processes to prepare financial statements in accordance with our proposed amendments to Regulation S-X. Accordingly, we are adopting a compliance date for our amendments to Regulation S-X of August 1, 2017. This is consistent with our proposed compliance period of eight months. The same compliance date will apply to conforming amendments related to our amendments to Regulation S-X, including the related amendments to the Statement of Additional Information (and Form N-CSR for closed-end funds) we are adopting today.

One commenter supported the proposed compliance date for the amendments to Regulation to S-X, although the commenter suggested that implementation be required for each fund with its next fiscal year end following the proposed compliance date.[1254] However, the commenter's rationale for a rolling compliance date was not that funds needed more time to comply, but rather that enhanced disclosure pursuant to the amendments to Regulation S-X should be initially provided over an entire fiscal year, as opposed to just a portion of the first fiscal year during which the amendments become effective.

Many other commenters requested that the compliance date be extended, with four commenters suggesting a compliance period of 18 months after the effective date of the amendments, one commenter recommending 24 months, and another commenter recommending

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[1254] *See* Wells Fargo Comment Letter.

36 months.[1255] Commenters supported their requests for a longer compliance date by asserting that the information that will be reported pursuant to the amendments to Regulation S-X overlaps with the information that will be reported on Form N-PORT, and thus the compliance date for Regulation S-X should be identical to the compliance date for Form N-PORT.[1256]

We decline to adopt these suggestions. Although some of the information that will be reported pursuant to the amendments to Regulation S-X overlaps with the information that will be reported on Form N-PORT, many of the amendments to Regulation S-X are unrelated to what will be reported in Form N-PORT. More significantly, as discussed above, our amendments to Regulation S-X are generally consistent with existing disclosure practices of many funds. As such, we do not expect that funds, intermediaries, or service providers will require significant amounts of time to modify systems or establish internal processes to prepare financial statements in accordance with our final amendments to Regulation S-X.

Additionally, some of the amendments we are adopting to Form N-CEN and the Statement of Additional Information (and Form N-CSR for closed-end funds) were originally proposed as part of our amendments to Regulation S-X, and we received no objections to our proposed timeframe for compliance for those portions of the amendments to Regulation S-X. Furthermore, the amendments to the Statement of Additional Information and Form N-CSR, like the amendments to Regulation S-X, do not entail the complications of having to develop and test

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[1255] *See* Fidelity Comment Letter(recommending a compliance date of 18 months after the effective date); Oppenheimer Comment Letter (same); State Street Comment Letter (same); MFS Comment Letter(same, although with implementation on a rolling basis based on the fund's fiscal year end); SIFMA Comment Letter I (recommending the compliance date for the amendments to Regulation S-X be the same as SIFMA's recommended compliance date for Form N-PORT, namely 24 months after the effective date or six months after publication of the final XML data structure for Form N-PORT); Invesco Comment Letter (recommending 36 months, after the effective date with implementation on a rolling basis based on the fund's fiscal year end).

[1256] *See* SIFMA Comment Letter I; State Street Comment Letter.

an XML schema or EDGAR validation behaviors, as is the case for our reporting requirements regarding information that will be reported on Form N-PORT and Form N-CEN.

III. 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 adopted changes to the current reporting regime. Changes to the current reporting regime include new Form N-PORT, the rescission of Form N-Q, amendments to the certification and exhibit filing requirements for Form N-CSR, amendments to Regulation S-X, new Form N-CEN, and the rescission of Form N-SAR. The economic effects of the adopted changes are discussed below.

The Commission is modernizing 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 amendments are designed 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 section II above, the Commission is adopting the following changes to its rules and forms:

- We are requiring registered management investment companies and ETFs organized as UITs, other than money market funds and SBICs, to report monthly portfolio information in a structured data format on a new form, Form N-PORT.

- We are rescinding Form N-Q. We are also lengthening 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 are revising Regulation S-X to require new, standardized enhanced disclosures regarding fund holdings in derivatives instruments; update the disclosures for other investments; and amend the rules regarding the general form and content of fund financial statements.
- We are rescinding Form N-SAR and replacing it with new Form N-CEN, which will require the annual reporting of similar and additional census information in an updated, structured data format.
- We are adopting amendments to Forms N-1A, N-3, and N-CSR (for closed-end funds) to require certain disclosures in fund Statements of Additional Information regarding securities lending activities.

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 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 have established industry practices for the disclosure of a fund's schedule of investments and financial statements. Lastly, the baseline includes the current practice of some funds to voluntarily disclose additional information, and the requirement that actively managed ETFs, and many index ETFs, disclose their portfolios on a daily basis. 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 will be affected by the new rules, forms, and 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 of the following new rules, forms, and amendments: the introduction of Form N-PORT, the rescission of Form N-Q, the amendments to Form N-CSR, the amendments to Regulation S-X, the introduction of Form N-CEN, the rescission of Form N-SAR, and the amendments to multiple registration statement forms. We identify for each of the new rules, forms, and amendments 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 2015, having grown from about $5.8 trillion at the end of 1998.[1257] In addition, approximately 93 million individuals own shares of registered investment companies, representing 55 million or 44% of U.S. households.[1258] Among investment companies, we estimate that, as of December 2015, there were 3,113 active investment companies registered with the Commission, of which 1,642 were open-end funds, 750 were closed-end funds (including 1 SBIC), and 721 were UITs (including 5 exchange-traded funds).[1259] We further

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[1257] *See supra* footnote 4.

[1258] *See id.*

[1259] Based on data obtained from registrants' filings with the Commission on Form N-SAR.

estimate that those registered investment companies included 17,052 funds or series thereof, of which 1,594 were exchange-traded funds (including eight organized as UITs), 5,188 were UITs, 750 were closed-end funds, 481 were money market funds, and 9,039 were other mutual funds. The following table summarizes the entities likely to be affected by the new 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 ADOPTED	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 information about portfolio holdings and general, census information about funds. In general, the new rules, forms, and amendments will modernize the fund reporting regime and, among other effects, will result in an increased transparency of fund portfolios and investment practices. The increased transparency will 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. We believe that the increase in transparency will 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. We also believe that the increase in transparency will 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 of the new rules, forms, and amendments 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 depend upon a number of factors that we cannot estimate or quantify. Factors include 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 change in the availability of fund information to all investors, institutional and individual; 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 describe where possible the direction of these effects.

In the Proposing Release, we requested general comment on the feasible alternatives to the information we proposed to require funds to report that would minimize the reporting burdens on funds while maintaining the anticipated benefits of the reporting and disclosure, as well as the 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.[1260] In adopting today's rules, forms, and amendments, we considered, among other things, such alternatives, utility, and costs.

B. Form N-PORT, Rescission of Form N-Q, and Amendments to Form N-CSR

1. Introduction and Economic Baseline

Form N-PORT will require registered management investment companies and ETFs organized as UITs, other than money market funds and 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 will 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 will be filed in a structured data format using XML to allow for easier aggregation and manipulation of the data. As discussed above, we are also rescinding Form N-Q but requiring that funds attach their complete portfolio holdings to Form N-PORT for the first and third fiscal quarters in accordance with Regulation S-X. We are also amending 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

[1260] *See* Proposing Release, *supra* footnote 7, at nn. 160-161.

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.[1261] As discussed above, we also are moving the management's statement regarding a change in accountant, which originally was an exhibit filed on Form N-SAR and was proposed as an attachment to Form N-CEN, to an exhibit to Form N-CSR.[1262] In addition, as discussed above, we are adopting amendments to require closed-end funds to report on Form N-CSR certain disclosures regarding securities lending activities.[1263]

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,[1264] 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.[1265] The parties that could be affected by the introduction of Form N-PORT are registered management investment companies (other than

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[1261] Amended Item 11(b) of Form N-CSR; amended paragraph 4(d) of certification exhibit of Item 11(a)(2) of Form N-CSR.

[1262] Item 12(a)(4) of Form N-CSR; *see also supra* section II.D.4.b.

[1263] *See* Item 12 of Form N-CSR; *see also supra* footnote 1181 and accompanying text and section II.F.

[1264] Form N-PORT will 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.

[1265] Additionally, many funds currently provide information concerning derivatives investments, similar to the requirements we are adopting in our amendments to Regulation S-X. *See* discussion *supra* section 0.

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, and 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.[1266] These funds are required to provide this information in reports on Form N-Q as of the end of the first and third fiscal quarters of each year[1267] and in reports on Form N-CSR as of the end of the second and fourth fiscal quarters of each year.[1268] 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).[1269] These reports are generally required to be filed on the EDGAR system and are made publicly available upon receipt.[1270] Reports on Form N-CSR may be filed up to 70 days after the end of the reporting period,[1271] and reports on Form N-Q may be filed up to 60 days after the end of the reporting period.

[1266] *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* footnote 421.

[1267] Item 1 of Form N-Q.

[1268] Item 6 of Form N-CSR.

[1269] Instruction to Item 6(a) of Form N-CSR; Item 1 of Form N-Q.

[1270] *See* rule 101(a)(i) of Regulation S-T [17 CFR 232.101(a)(i)].

[1271] 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).

Forms N-CSR and N-Q are required to be filed in HTML or ASCII/SGML format.[1272] 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.[1273] 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 information from more than one report in an automated way to, for example, construct a database of fund portfolio positions without additional formatting.

We received no comments that specifically addressed the baseline described in the Proposing Release. We believe that the economic effects from the introduction of new Form N-PORT will largely result from the disclosure of portfolio investment information in a structured data format, as well as the additional information that investment companies will report relative to current reporting practices. We also believe that the economic effects will depend on the extent to which the portfolios and investment activities 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, investors, and others to utilize the information. The current reporting requirements for investment companies, however, limit the ability of Commission staff to evaluate the potential economic effects. For example, the non-structured data format of reported portfolio investment information and the lack of standardized reporting requirements for certain types of portfolio investments all reduce the ability of Commission staff

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[1272] *See* rule 301 of Regulation S-T; EDGAR Filer Manual (Volume II) version 27 (June 2014), at 5-1.

[1273] 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.

to aggregate information across the fund industry and to evaluate the economic effects of the regulatory changes.

The new rules, forms, and amendments will 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, will provide more information about 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 2015, on average 76.5% of investment companies reported as permitted investment policies involving the writing or investing in options or futures, and on average 5.3% of investment companies reported engaging in each one of these policies during the report period.[1274] In addition, the total net assets of alternative funds from which more information would become available were as of year-end

[1274] *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 (14.0%) and engaging in writing or investing in interest rate futures (12.5%), and the smallest proportion of funds reported engaging in writing or investing in other commodity futures (1.6%) and engaging in writing or investing in options on stock index futures (0.7%). Aggregate condensed balance sheet information reported on Form N-SAR indicates that funds held $3.4 billion in options on equities and options on all futures (Item 74.G and Item 74.H) or 0.018% of net assets from the second half of 2015. Aggregate condensed balance sheet information reported on Form N-SAR from the second half of 2015 also indicates that funds had $54.1 billion in short sales (Item 74.R.(2)) and $3.8 billion in written options (Item 74.R.(3)), or 0.291% and 0.020% of net assets, respectively. The estimates are approximate.

2015 approximately $219 billion or 1.3% of the total net assets of the mutual fund market.[1275] 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 11.9% in 2013, 4.0% in 2014, and 6.1% in 2015.[1276]

Information from a White Paper prepared by staff in the Division of Economic and Risk Analysis also describes current fund use of derivatives.[1277] For example, based on data from Morningstar, the number of funds that can be categorized as engaging in alternative investment strategies increased from 2010 to 2014 at an annual rate of 17%, whereas the total number of all funds increased at an average annual rate of 8%.[1278] In addition, based on a random sample of funds drawn from Form N-CSR filings, 32% of funds held one or more derivatives, and the average aggregate exposure from derivatives, financial commitment transactions and other senior securities was 23% of net asset value. Evidence from the random sample also indicates that funds engaging in alternative investment strategies tended to use derivatives more often than other fund types, which the White Paper described collectively as "Traditional" mutual funds.

[1275] *See supra* footnote 39. These statistics were obtained from staff analysis of Morningstar Direct data, and are based on fund categories as defined by Morningstar.

[1276] *See id.*

[1277] *See* White Paper entitled "Use of Derivatives by Investment Companies," which was prepared by staff in the Division of Economic and Risk Analysis and was placed in the comment file for the Use of Derivatives by Registered Investment Companies and Business Development Companies, Investment Company Release No. 31933 (Dec. 11, 2015) [80 FR 80883(Dec. 28, 2015)]. Daniel Deli, *et al.*, *Use of Derivatives by Registered Investment Companies*, Division of Economic and Risk Analysis (2015) ("DERA White Paper"), *available at* http://www.sec.gov/dera/staff-papers/white-papers/derivatives12-2015.pdf.

[1278] In 2010, 591 of the 8,577 sample funds were defined as engaging in alternative investment strategies, and in 2014 1,125 of the 11,573 sample funds were defined as engaging in alternative investment strategies.

2. Benefits

As discussed, Form N-PORT will 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 frequency, the update to the structure of the information that reporting funds will disclose, and the additional information that reporting funds do not currently disclose, discussed in further detail below, will improve the ability of the Commission to understand, analyze, and monitor the fund industry. We believe that the information we receive on these reports will facilitate the oversight of reporting funds and will 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 funds make available monthly portfolio investment information to the Commission on Form N-PORT will improve the ability of the Commission to oversee reporting funds by increasing the timeliness of the information available, and by providing a larger number of data points. The expanded reporting also will increase the ability of Commission staff to identify trends in investment strategies and fund products as well as industry outliers.[1279] As

[1279] *See, e.g., supra* section II. 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. To the extent that managers may window-dress to affect public perception, managerial incentives for doing so 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*, REV. OF FIN. STUD., Vol. 27(11), 3133–3170 (2014).

discussed above, the quarterly portfolio reports that the Commission currently receives on Forms N-Q and N-CSR can become stale due to changes in the holdings of portfolio securities or fluctuations in the values of the portfolio's investments. Requiring monthly filings on Form N-PORT will increase the timeliness of the information the Commission receives from funds. More timely portfolio investment information will improve the ability of Commission staff to oversee the fund industry by monitoring industry trends, informing policy and rulemaking, identifying risks, and assisting Commission staff in examination and enforcement efforts.

The ability of Commission staff to effectively use the information reported in Form N-PORT depends on the ability of staff to compile and aggregate information into a single database that can then be used 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. Several commenters agreed that the structuring of the information will improve the ability of the Commission to compile and aggregate information across all reporting funds, and to analyze individual funds or a group of funds, and will increase the overall efficiency of staff to analyze the information.[1280] For example, the ability to compare portfolio investment information across reporting funds or for a single fund across report dates will improve the ability of the Commission to identify funds for examination and to identify trends in the fund industry. The Commission is requiring that filers disclose information using the Commission's XML schema. Based on the comments received and the Commission's experience, the Commission believes that requiring the information to be disclosed in an XML format will facilitate enhanced search capabilities, and statistical and comparative analyses across filings.

[1280] *See, e.g.,* ICI Comment Letter ("Receiving this information in XML format will facilitate the Commission's ability to efficiently analyze fund portfolio information on a regular basis."); Morningstar Comment Letter; *but see* Federated Comment Letter.

With the data structured in XML, the Commission and the public can immediately download the information directly into databases and analyze it using various software packages. This enhances both the Commission's and the public's abilities to conduct large-scale analysis and immediate comparison across funds and date ranges.

The usefulness of structured data depends on the care with which filers report the data. If filers were to report data that did not conform to the Commission's XML schema, data quality would be diminished and would impair the Commission's and the public's ability to aggregate, compare, and analyze the data. As a result, the Commission's XML schema also incorporates certain validations to help ensure consistent formatting among all filings, in other words, to help ensure data quality. Validations are restrictions placed on the formatting for each data element so that comparable data is presented comparably. However, these formatting validations are not designed to ensure the underlying accuracy of the data; they can only help ensure data quality. These validations cannot exist in the current reporting formats for Form N-CSR and Form N-Q.

XML is an open standard[1281] that is maintained by an organization other than the Commission and undergoes constant review. As updates to XML or industry practice develop, the Commission's XML schema will also be updated to reflect those developments, with the outdated version of the schema replaced in order to maintain data quality and consistency.

As we discussed above in section II.A.3, we considered, as several commenters suggested, alternative formats to XML, such as XBRL.[1282] While the XBRL format allows funds to capture the rich complexity of financial information presented in accordance with GAAP, we

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[1281] The term ''open standard'' is generally applied to technological specifications that are widely available to the public, royalty-free, at no cost.

[1282] *See, e.g.*, XBRL US Comment Letter; Deloitte Comment Letter; *but see* Morningstar Comment Letter ("Extensible Business Reporting Language has had very limited success, and certain aspects of the standard are too lenient for regular data validation.").

believe that XML is more appropriate for the reporting requirements that we are adopting. Form N-PORT, as well as Form N-CEN, as adopted, will contain a set of relatively simple characteristics of the fund's portfolio- and position-level data, such as fund and class identifying information that is more suited for XML. While XBRL has more enhanced validation features, the simpler reporting elements on Form N-PORT and Form N-CEN do not require those enhanced features to ensure similar levels of formatting consistency.

In light of the benefits of structured data, we acknowledge that Form N-PORT duplicates some information filed in other forms, while also requiring funds to report information that is not currently required to be reported to the Commission, including portfolio- and position- level risk metrics and additional information describing debt securities and derivatives, securities lending activities, repurchase and reverse repurchase agreements, the pricing of securities, and fund flows and returns. Requesting data in a structured format may promote additional efficiency among investment companies to the extent that the new, standardized reporting requirements facilitate more automated report assembly, validation, and review processes for the disclosure and transmission of filings. Furthermore, filing this information in an XML format will allow the Commission staff to more efficiently review and analyze data for industry trends, and to better understand the risks of a particular fund (in the context of the fund's investment strategy), a group of funds, and the fund industry by being able to conduct large-scale analysis more easily, which will help in identifying outliers or trends that could warrant further investigation in a more immediate fashion.[1283]

[1283] *See supra* section 0. *See also, e.g.*, BlackRock Comment Letter ("Importantly, the greater depth and frequency of information requested by the Commission will help the Commission better identify and monitor emerging risks associated with specific RICs or categories of RICs as well as asset management activities."); Wells Fargo Comment Letter ("we believe that the enhanced disclosure requirements of the Proposals represent appropriate valuable information for the Commission to have

The requirement to report portfolio- and position-level risk metrics will provide Commission staff with a set of quantitative measurements that provide information about the risk exposures of a fund. The risk metrics will improve the ability of Commission staff to efficiently analyze information for all reporting funds based on exposure to certain risks, and to determine whether additional guidance or policy measures are appropriate to improve disclosures. We are requiring funds to report risk measures, rather than the raw inputs used to calculate risk measures, because the calculation of 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 will not require.[1284] While the Commission would retain greater flexibility if funds were required to report substantially more detailed information regarding raw inputs on Form N-PORT,[1285] it could be difficult for the Commission to efficiently calculate these same measures and funds would incur an increase in reporting costs. We recognize that requiring funds to report these risk measures increases reporting burdens, but as discussed above, based on staff experience and outreach, we understand that most funds currently calculate risk measures for such securities and hence do not believe that the burden is significant.

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in order to assess trends in risks, for example, across the mutual fund industry."); CFA Comment Letter (supporting transparency of derivatives holdings); Morningstar Comment Letter. *See also* ICI Comment Letter ("Much of the additional information the SEC proposes to collect can enhance its ability to monitor and oversee the fund industry."). *But see* Federated Comment Letter ("A majority of the Commission's proposed amendments to Form N-1A, N-PORT, and N-CEN would require a large effort from funds while offering data that is, at best, of little utility, and, at worst, misleading. Many of these deficiencies relate to flaws inherent in a security-level disclosure scheme.").

[1284] One commenter stated that the Commission should not require that funds report risk sensitivity measures, and instead calculate the risk sensitivity measures using raw inputs (Vanguard Comment Letter). The commenter noted that the Commission would therefore be able to calculate the measures consistently and in doing so draw "apples-to-apples" comparisons.

[1285] *See id.*

The requirement for investment companies to provide risk metrics at the position-level and at the portfolio-level will improve the ability of staff to efficiently identify the risk exposures of funds regardless of the types of investments held or that could be introduced to the marketplace. The portfolio-level measures of risk will 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. Also, staff could use the risk measures in combination to conduct additional analyses. For example, Commission staff can use the two measures of interest rate duration (i.e., DV01 and DV100) to generate a proxy for interest rate convexity.

We have, however, made certain modifications to the proposed reporting requirements regarding the reporting of risk metrics in response to comments received. For example, as discussed in detail above, we are requiring the reporting of fewer key rates to reduce the reporting burden for funds, adopting a 1% *de minimis* threshold for reporting risk metrics for each currency to which the fund is exposed, and raising the threshold for fixed income allocation for risk reporting from 20% to 25% to align the reporting requirement with current disclosures required in the prospectus. To the extent that adopting a *de minimis* amount for reporting risk metrics for each currency will prevent the Commission, investors, and other users from seeing an exhaustive view of fund's currency risk exposures, there could be a reduction in the informational benefit to the Commission, investors, and other users relative to the proposal. However, relative to the baseline, we believe the economic effects of the disclosure of currency risk metrics are substantially similar with or without the adoption of a *de minimis*. Similarly, there could be a reduction in the informational benefit to the Commission, investors, and other users relative to the proposal to the extent that certain funds that would have had to report risk

metrics under the 20% threshold do not have to report them under the 25% threshold, although we again believe that such a change will not significantly impact the benefits of this disclosure relative to the baseline because it is unlikely that funds that make investments in debt instruments as a significant part of their investment strategy have less than 25% of their NAV invested in such instruments. We believe, however, that such modifications are appropriate in light of the lower reporting burden for funds. Conversely, the Commission is adding a requirement to report DV100 in addition to DV01 to provide information about larger changes in interest rates, as well as information about nonparallel shifts in the yield curve. While funds will have an increased reporting cost to report DV100 in addition to DV01 relative to the proposal, as DV100 is a standard measure of interest rate sensitivity and a common measure of duration we do not believe the cost to funds relative to the baseline will change. Furthermore, we believe that this modification will provide the Commission with the ability to analyze data about larger shifts in the yield curve, as well as changes in the shape of the yield curve. Similarly, while funds will have a decreased reporting cost in light of our modification to require the reporting of fewer key rates, we do not believe that the decrease in information collected by the Commission will substantially affect our ability to analyze how debt portfolios will react to different interest rate changes and credit spreads along the Treasury curve, given that the rates at which funds will report these metrics are, in general, largely representative of bond funds' overall exposures.

Form N-PORT will require reporting 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 convertible debt securities and derivatives; and information describing the size of the position. This information will provide Commission staff the 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 will 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 will also require additional identification information regarding the reporting fund, the issuers of the fund's portfolio investments, and the investments themselves, including the reference instruments for convertible debt securities and derivatives investments. The adopting release differs from the proposal with respect to the treatment of reference assets that are custom baskets or nonpublic indexes of securities in that for those that represent more than 1%, but less than 5%, of the fund's NAV, funds will be required to disclose the top 50 components of the basket and, in addition, those components that exceed 1% of the notional value of the index. For nonpublic indexes or custom baskets that represent greater than 5% of the fund's NAV, all components will be required to be disclosed. For nonpublic custom baskets or indexes that represent less than 1% of the fund's NAV, no disclosure is required. Although this modification will provide the Commission, investors, and other users with less than complete transparency into any such derivative investment that represents between 1% and 5% of a fund's NAV, given that this modification will still allow the Commission to collect information on a large portion of the significant reference assets for these investments, we do not

believe this change will significantly impact the benefits derived relative to those discussed in the proposal. The additional identification information will benefit the Commission by improving the ability of staff to link the information from Form N-PORT to information from other sources that identify market participants and investments using these same identifiers, such as Form N-CEN. The additional identification information will improve upon the current requirement for funds to provide just the issuer name, and as such will aid the Commission in identifying both the issuers of fund portfolio investments and the investments themselves. As a result, Commission staff will be better able 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 will also experience benefits from the introduction of Form N-PORT.[1286] While the frequency of the public disclosure of portfolio information will not change, we believe that the structured data format of this information will allow investors and other potential users to more efficiently analyze portfolio investment information. Investors and other potential users will also have disclosure of additional information that is currently not included in the schedule of investments reported on Form N-Q and Form N-CSR. The structure of the information, as well as the additional information, will increase the transparency of a fund's investment strategies and improve the ability of investors and other potential users to more efficiently identify its risk exposures.

Form N-PORT will benefit investors, to the extent that they use the information, to better differentiate investment companies based on their investment strategies and other activities. For

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[1286] *See also* Morningstar Comment Letter (stating that modern electronic reporting should apply to all registered investment companies, as investors use open-end funds, ETFs, closed-end funds, and UITs as "tools to build portfolios.").

example, investors will be able to more efficiently identify funds that use derivatives and the extent to which they use derivatives as part of their investment strategies.[1287] In general, we expect that institutional investors and other market participants will directly use the information from Form N-PORT more so than individual investors. For individual investors who choose not to access the data in an XML format, those investors can access similar information through the additional disclosure requirements in an unstructured format for investment companies, 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.[1288] Investors, and in particular individual investors, could also indirectly benefit from the information in Form N-PORT to the extent that third-party information providers and other interested parties obtain, aggregate, provide, and report on the information. Investors could also indirectly benefit from the information in Form N-PORT to the extent that other entities, including investment advisers and broker-dealers, utilize the information to help investors make more informed investment decisions.

We received a number of comments supporting quarterly public disclosure of Form N-PORT, but requesting that certain information items be kept nonpublic.[1289] In response to these

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[1287] Form N-PORT will 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 will be required to file reports on Form N-PORT.

[1288] *See* discussion *supra* section 0.

[1289] *See, e.g.*, ICI Comment Letter (portfolio risk metrics, delta, liquidity determinations, country of risk and derivatives financing rates should be kept non-public); BlackRock Comment Letter (risk metrics); Invesco Comment Letter (portfolio level risk metrics, derivatives information, illiquidity determinations, and securities lending information should remain non-public); Oppenheimer Comment Letter (risk metrics, illiquidity determinations, country of risk determinations, derivatives payment terms (including financing rates), and securities lending fees and revenue sharing splits should be kept non-public).

comments, and in contrast to the proposing release, three items reported on Form N-PORT will be kept nonpublic: delta, country of risk, and the explanatory notes related to delta and country of risk. Given that the Commission will still collect this information, we do not believe there will be a significant economic impact relative to the Proposing Release due to keeping these data items nonpublic, as the Commission is the primary user of these data elements. A discussion of the issue of public versus nonpublic data can be found in section II.A.4.

One clarifying change that has been made from the proposing release in response to commenters is the addition of an instruction that funds may use their own methodologies in General Instruction G. General Instruction G now provides that funds may respond to Form N-PORT using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors, and the Fund's methodologies and conventions are consistently applied and the Fund's responses are consistent with any instructions or other guidance relating to the Form. To the extent this instruction decreases the comparability of the data collected, there could be some reduction in benefit relative to the proposal, although funds will likely benefit from the decreased reporting burden associated with explicitly allowing them to rely on their existing practices.

The portfolio investment information that investment companies report to the Commission is informative in describing the investment strategy funds implement,[1290] and investors could use the information to select funds based on security selection, industry focus,

[1290] 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* footnotes 1307-1314. Just as investors can use the information to front-run, predatory trade, or copycat/reverse engineer of the trading strategy of a reporting fund, investors of funds can also use the information to identify funds for investment.

level of diversification, and the use of leverage and derivatives.[1291] We believe that an increase in the ability of investors to differentiate investment companies could 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, we believe that the introduction of Form N-PORT could also 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 each fund will still be required 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.

3. Costs

Form N-PORT will require registered management investment companies and ETFs organized as UITs, other than money market funds and SBICs, to incur one-time and ongoing costs to comply with the new filing requirements. Funds will 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

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[1291] 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 & Peter Tufano, *Costly Search and Mutual Fund Flows*, 53 J. OF FIN., 1589 (1998); Zoran Ivković & Scott Weisbenner, *Individual Investor Mutual Fund Flows*, 92 J. OF FIN. ECON., 223 (2009); George D. Cashman, *Convenience in the Mutual Fund Industry*, 18 J. OF CORP. FIN., 1326 (2012).

information to third-party information providers and on fund websites, including monthly portfolio investments, and additional information in fund financial statements, including additional information regarding derivatives similar to the requirements that we are adopting today, will bear fewer costs than those funds that do not.[1292] The Commission is aware that even funds that do so report will nonetheless likely incur additional costs on reports on Form N-PORT than on voluntary submissions, such as validation and signoff processes, given that reports on Form N-PORT will be a required regulatory filing and will require different data than the funds are currently providing to third-party information providers. However, over time, the filings could become highly automated and could involve fewer costs.[1293]

Funds will incur costs to file reports on Form N-PORT in a structured data format. Based on staff experience with other XML filings, however, these costs are expected to be minimal given the technology that will be used to structure the data.[1294] 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

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[1292] Monthly portfolio investment information is available for approximately 42% of funds covered by The CRSP Survivor-Bias-Free US Mutual Fund Database as of the fourth quarter of 2015. The database covers more than 10,000 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. One commenter also cited the proportion of funds that are currently reporting monthly portfolio investment information, 6,500 of 12,000 portfolios, as well as the proportion of funds that report portfolio investment monthly information within 45 days, 6,200 of 6,500. Morningstar Comment Letter.

[1293] Costs related to such processes are included in the estimate below of the paperwork costs related to Form N-PORT, discussed below.

[1294] *See, e.g.*, Form PF Adopting Release, *supra* footnote 80, 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* footnote 447, at nn. 341–344 and accompanying text (discussing the costs to money market funds of filing reports on Form N-MFP in XML format).

investments and other information. Systems should be able to accommodate XML data without significant costs, and large-scale changes will likely not be necessary to output structured data files. In an effort to reduce some of the potential burdens on smaller entities, we are extending 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.[1295] 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 will also require the disclosure of certain information that is not currently required by the Commission. To the extent that the new form will require information to be reported that is not currently contained in fund accounting or financial reporting systems, funds will bear one-time costs to update systems to adhere to the new filing requirements. The one-time costs will depend on the extent to which investment companies currently report the information required to be disclosed. The one-time costs will also depend on whether and to what extent an investment company would need to implement new systems and to integrate information maintained in separate internal systems or by third parties to comply with the new requirements. For example, based on staff outreach to funds, we believe that funds will 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 currently 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.

[1295] *See supra* section 0.

In some instances, such as in the case of increased disclosures regarding derivatives investments and information concerning the pricing of investments, the Commission is requiring parallel disclosures in the fund's schedule of investments prepared pursuant to Regulation S-X; accordingly, we expect funds will 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 will be disclosed on Form N-PORT only.

The Commission is sensitive to the costs that funds will incur to prepare, review, and file reports on Form N-PORT. Relative to the proposal, the Commission is making modifications to these final rules that should reduce the burden on investment companies to file reports on Form N-PORT. In particular, and in response to commenters,[1296] we have raised the threshold for requiring reporting of portfolio level risk metrics and are providing a *de minimis* for requiring reporting of risk metrics for currency exposures. We are also modifying the requirements with respect to reference assets that are custom baskets or nonpublic indexes of securities so that for such investments that constitute more than 1%, but less than 5% of the fund's NAV, funds will be required to report only the top 50 components of the basket and, in addition, those components that represent more than 1% of the notional value of the index. We believe this will result in a decreased burden for filers relative to the proposal. In addition, and as requested by commenters, funds will report portfolio information on Form N-PORT on the same basis they use in NAV calculations under rule 2a-4 (generally a T+1 basis), which will alleviate the need of

[1296] *See, e.g.*, Oppenheimer Comment Letter; MFS Comment Letter; Wells Fargo Comment Letter.

the majority of funds to alter reporting systems to report on a T+0 basis.[1297] Although we did not specify the appropriate basis for reporting in the proposing release, commenters suggested that reporting on the same basis used in NAV calculations (generally a T+1 basis) was preferable to T+0, and we are sensitive to their concerns. Finally, we are adopting a new General Instruction G that clarifies that in reporting information on Form N-PORT, the fund may respond using its own internal methodologies and the conventions of its service providers, provided the information is consistent with information that they report internally and to current and prospective investors, and the fund's methodologies and conventions are consistent with any instructions or other guidance relating to the Form. We believe that this alteration eases the reporting burden on funds by allowing them to rely on their existing practices and could result in a cost savings for filers relative to the proposal as it makes clear that they do not have to alter systems or methodology for reporting information items on Form N-PORT.

To the extent possible, we have attempted to quantify these costs. Based on updated industry statistics, we estimate that 11,382 funds will file Form N-PORT.[1298] As discussed below, we estimate that these funds will incur certain costs associated with preparing, reviewing, and filing reports on Form N-PORT.[1299] Assuming that 35% of funds (3,984 funds) will choose to license a software solution to file reports on Form N-PORT, we estimate costs to funds

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[1297] Fidelity Comment Letter (requesting that funds be permitted to report on a T+1 basis); MFS Comment Letter (same); Pioneer Comment (same); Invesco Comment Letter (same).

[1298] *See infra* footnote 1495 (explaining calculation of 11,382 funds).

[1299] *See infra* section V.A.1. Commenters questioned the estimates in the proposal relating to the paperwork costs associated with preparing, reviewing, and filing reports on Form N-PORT. *See* Invesco Comment Letter; Simpson Thacher Comment Letter. These comments are discussed *infra* section IV.A.1.

choosing this option of $56,682 per fund for the first year[1300] with annual ongoing costs of $47,465 per fund.[1301] We further assume that 65% of funds (7,398 funds) will 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 costs to funds choosing this option of $55,492 per fund for the first year[1302] with annual ongoing costs of $39,214 per

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[1300] *See infra* footnotes 1473–1476, 1486, 1494 and accompanying text. This estimate is based upon the following calculations: $56,682 = $4,805 in external costs + $51,876.50 in internal costs ($51,876.50 = (15 hours x $308/hour for a senior programmer) + (38.5 hours x $317/hour for a senior database administrator) + (30 hours x $271/hour for a financial reporting manager) + (30 hours x $201/hour for a senior accountant) + (30 hours x $160/hour for an intermediate accountant) + (30 hours x $306/hour for a senior portfolio manager) + (24 hours x $288/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 inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[1301] *See infra* footnotes 1477, 1486 and accompanying text. This estimate is based upon the following calculations: $47,465 = $4,805 in external costs + $42,660 in internal costs ($42,660 = (30 hours x $271/hour for a financial reporting manager) + (30 hours x $201/hour for a senior accountant) + (30 hours x $160/hour for an intermediate accountant) + (30 hours x $306/hour for a senior portfolio manager) + (24 hours x $288/hour for a compliance manager) + (24 hours x $317/hour for a senior database administrator)).

[1302] *See infra* footnotes 1480–1482, 1487, 1494 and accompanying text. This estimate is based upon the following calculations: $55,492 = $11,440 in external costs + $44,051.50 in internal costs ($44,051.50 = (30 hours x $308/hour for a senior programmer) + (46 hours x $317/hour for a senior database administrator) + (16.5 hours x $271/hour for a financial reporting manager) + (16.5 hours x $201/hour for a senior accountant) + (16.5 hours x $160/hour for an intermediate accountant) + (16.5 hours x $306/hour for a senior portfolio manager) + (16.5 hours x $288/hour for a compliance manager)).

fund.[1303] In total, we estimate that funds will incur initial costs of $636,350,904 and ongoing annual costs of $479,205,732.[1304]

Although there will 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.[1305] Investors that trade ahead of funds could reduce the profitability of funds by increasing the prices at which funds purchase securities and by decreasing the prices at which funds sell securities. These activities can reduce the returns to shareholders who invest in actively managed funds, making actively managed funds less attractive investment options.[1306] Portfolio investment information,

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[1303] *See infra* footnotes 1483, 1487 and accompanying text. This estimate is based upon the following calculations: $39,214 = $11,440 in external costs + $27,774 in internal costs ($27,774 = (18 hours x $271/hour for a financial reporting manager) + (18 hours x $201/hour for a senior accountant) + (18 hours x $160/hour for an intermediate accountant) + (18 hours x $306/hour for a senior portfolio manager) + (18 hours x $288/hour for a compliance manager) + (18 hours x $317/hour for a senior database administrator)).

[1304] These estimates are based upon the following calculations: $636,350,904 = (3,984 funds x $56,682 per fund) + (7,398 funds x $55,492 per fund). $479,205,732 = (3,984 funds x $47,465 per fund) + (7,398 funds x $39,214 per fund).

[1305] One commenter questioned the potential impact of monthly public disclosure of Form N-PORT on the ability of other investors to engage in predatory trading or copycatting activities citing to the large proportion of funds that currently report monthly portfolio investment information (Morningstar Comment Letter). Although a large percentage of funds report monthly portfolio investment information, a large percentage of funds currently do not. *See supra* footnote 1292. The incentives of funds to report portfolio investment information on a more frequent basis is dependent on many factors including their perception of the impact of more frequent public disclosure on future returns. Other commenters expressed concern that the increase in the amount of publicly available information and the greater ability to analyze the information as a result of its structure would increase front-running, predatory trading, and copycatting/reverse engineering of trading strategies by other investors and suggested that reports filed on Form N-PORT be made non-public (Schwab Comment Letter; T. Rowe Price Comment Letter). Another commenter recommended the quarterly reporting of monthly information to reduce these concerns (Dodge & Cox Comment Letter).

[1306] *See, e.g.*, Potential Effects of More Frequent Disclosure, *supra* footnote 490.

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,[1307] or create opportunities for other market participants to engage in predatory trading that could further hinder fund ability to unwind positions.[1308] For example, Form N-PORT will 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 their risk exposures.[1309] We note, however, that much, though not all, of the information that Form N-PORT requires is already reported by funds on Form N-CSR and Form N-Q.[1310] The structured data format of portfolio investments disclosure could improve the ability of other investors to obtain and aggregate the data, and identify specific funds to front-run or trade in a predatory manner. These activities could reduce the profitability from developing new investment strategies, and therefore could reduce innovation and adversely impact competition in the fund industry.

A trading strategy that follows the publicly reported holdings of actively managed funds can also earn similar if not higher after expense returns.[1311] An implication of this observation 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

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[1307] *See, e.g.*, Joshua Coval & Erik Stafford, *Asset Fire Sales (and Purchases) in Equity Markets*, 86 J. OF FIN. ECON., 479 (2007).

[1308] *See, e.g.*, Markus K. Brunnermeier & Lasse Heje Pedersen, *Predatory Trading*, 60 J. OF FIN. 1825 (2005).

[1309] *See, e.g.*, Simpson Thacher Comment Letter ("We further note that public disclosure of detailed information about each derivatives position will provide competitors of funds significantly enhances ability to reverse-engineer strategies."); Pioneer Comment Letter.

[1310] *See supra* footnote 27 and accompanying text.

[1311] *See, e.g.*, Mary Margaret Frank, *et al.*, *Copycat Funds: Information Disclosure Regulation and the Returns to Active Management in the Mutual Fund Industry*, 47 J. LAW AND ECON. 515 (2004).

investment strategies and engaging in proprietary market research. The effect of free-riding would reduce the ability of 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.[1312]

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, studies suggest that the ability of copycat funds to outperform actively managed funds increased after the introduction of Form N-Q,[1313] and additional studies suggest 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.[1314] 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 will not increase the frequency of public

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[1312] *See, e.g.*, Vikas Agarwal, *et al.*, *Mandatory Portfolio Disclosure, Stock Liquidity, and Mutual Fund Performance*, 70 J. OF FIN. ECON. 2733 (DEC. 2015) ("Agarwal *et al.*"), *available at* http://onlinelibrary.wiley.com/doi/10.1111/jofi.12245/pdf; Marno Verbeek & Yu Wang, *Better than the Original? The Relative Success of Copycat Funds*, 37 J. OF BANK. & FIN., 3454 (2013) ("Verbeek & Wang").

[1313] *See* Verbeek & Wang, *supra* footnote 1312.

[1314] *See* Agarwal *et al*., *supra* footnote 1312. Low information stocks include stocks with smaller market capitalization, less liquidity, and less analyst coverage. The authors also observed that the liquidity of stocks with higher fund ownership increased following the introduction of Form N-Q. Although the increase in liquidity will benefit investors by reducing trading costs, this benefit stems as a result of the costly disclosure of potential investment opportunities.

disclosure, Form N-PORT will increase the amount of portfolio investment information available. In addition, Form N-PORT, unlike Form N-Q, will also increase the accessibility of the information as a result of its structured data format. By maintaining the status quo with respect to the frequency and timing of the disclosure of publicly available portfolio information, we aim to mitigate added costs while allowing the Commission, the fund industry, and the marketplace to assess the impact of the structured, more detailed data reported on Form N-PORT, and the extent to which these changes might affect the likelihood of predatory trading. The additional information and the structure of the information that is required under Form N-PORT, however, could 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 front-run, predatory trade, and copycat/reverse engineer trading strategies, and in particular those funds that would have more additional information disclosed, such as funds that use derivatives as part of their investment strategies.[1315] We believe, however, that even though the reported information will be more easily and efficiently accessed and aggregated given the nature of structured data, the contribution of structured data to front-running, predatory trading, and reverse-engineering will be minimal compared to the baseline given that funds currently have a quarterly public reporting frequency with a 60-day reporting delay. 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 will require the disclosure of information that is currently nonpublic and could result in additional or other costs to funds and to market participants. For example, we

[1315] *See supra* footnote 1314 and accompanying text.

proposed that Form N-PORT would require a fund to report the identities and weights of all of the individual components in custom baskets or indexes comprising the reference instruments underlying the fund's derivative investments, as well as each component that represents more than one percent of the reference asset based on the notional value of the derivatives, unless the reference instrument is an index or custom basket 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.[1316] Commenters informed us that index providers assert intellectual property rights to many indexes or custom baskets used as reference instruments in derivative investments to index providers, and are subject to licensing agreements between the index provider and the fund.[1317] As further noted by commenters, we acknowledge that disclosing the components of a nonpublic index or custom basket could result in costs to both the index provider, whose indexing strategy could be imitated, and the fund, whose investments could be front-run.[1318] Moreover, as stated by commenters, disclosing the underlying components of such an index or custom basket 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 or custom basket.[1319] Additionally, the increased transparency in nonpublic indexes and custom baskets could

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[1316] *See supra* footnote 355 and accompanying text.

[1317] *See* MSCI Comment Letter; SIFMA Comment Letter I; ICI Comment Letter.

[1318] *See, e.g.*, SIFMA Comment Letter I; *see also* Antti Petajisto, *The Index Premium and its Hidden Cost for Index Funds*, 18 J. OF EMPIRICAL FIN. 271 (2011). Petajisto analysis suggests 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.

[1319] *See* ICI Comment Letter. 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 or custom basket.

ultimately decrease the incentives of index providers to license the use of such indexes or custom baskets to funds as well as fund demand for securities products that incorporate these indexes. We are unable to quantify the extent to which these reporting requirements could affect the costs associated with licensing agreements, fees, and incentives.

Although our determination to keep certain items nonpublic was based on factors other than competitive concerns,[1320] by keeping delta and country of risk nonpublic relative to the proposal, as recommended by commenters, potential costs of disclosing previously nonpublic information may have been mitigated as well. We recognize that Form N-PORT, as well as the amendments to regulation S-X, will 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.[1321] As asserted by commenters, 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.[1322] There is a possibility, however, that counterparties may choose not to transact with funds as a consequence of this disclosure, in which funds would have fewer potential counterparties to work with and the fees paid by funds would likely rise.

Form N-PORT also requires funds to disclose the variable financing rates for swaps that pay or receive financing payments.[1323] Some commenters noted that variable financing rates for swap contracts are commercial terms of a deal that are negotiated between the fund and the

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[1320] *See generally supra* section 0.

[1321] *See, e.g.*, MFS Comment Letter; Invesco Comment Letter; ICI Comment Letter.

[1322] *See, e.g.*, MFS Comment Letter; Invesco Comment Letter.

[1323] *See* Item C.11.f.i. of Form N-PORT.

counterparty to the swap.[1324] 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. However, the increased transparency could increase the competition among swap and security-based swap dealers to offer favorable fees and financing terms thereby decreasing the fees paid by funds. Counterparties could also choose not to transact with funds as a consequence of this disclosure, in which case competition for counterparties would increase and the fees paid by funds would rise.

Finally, some commenters noted that reporting of distressed debt issued by private companies could affect the private company's relationship with the fund. For example, one commenter argued that the public disclosure of default, arrears, or deferred coupon payments raises competitive concerns when a debt security is issued by a borrower that is a private company, as private borrowers may avoid registered funds in order to limit public disclosure if the company becomes distressed.[1325] The commenter noted that public disclosure that a borrower is or may be financially distressed could increase prepayment risk and be disruptive to the fund's or adviser's relationship with the borrower.[1326] Moreover, this disclosure could also harm private issuers by disclosing their financial distress to vendors and key employees and customers.[1327] While we recognize that the disclosure of a private issuer in distress could result in costs for the issuer in the forms discussed above (*e.g.* a potentially negative impact on existing

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[1324] *See, e.g.*, MFS Comment Letter; Invesco Comment Letter; and ICI Comment Letter (public benefit of disclosure does not outweigh potential competitive harm).

[1325] *See* Simpson Thacher Comment Letter.

[1326] *See id.*

[1327] *See id.*

outside relationships or a decrease in prospective future borrowers), we believe that it is important that Commission staff have access to information relating to fund investments that are in default or arrears in order to monitor individual fund and industry risk. Moreover, funds investors will benefit from the transparency into the financial health of the fund's investments which will allow them to make more fully informed decisions regarding their investment. Moreover, default or arrears relating to a fund's investments in private issuer debt are already publicly available on a fund's quarterly financial statements, further mitigating any potential new costs to the fund or its private counterparties.[1328]

As discussed, we expect that institutional investors and other market participants will directly use the information from Form N-PORT more so than individual investors as a result of the format and associated readability.[1329] To the extent that third-party information providers obtain and present the information in a format that individual investors could understand, then individual investors will also benefit from the information that funds report on Form N-PORT. We recognize that some commenters were concerned that individual investors may misinterpret the portfolio investment information that funds report on Form N-PORT, possibly including portfolio and position level risk metrics, country of risk and portfolio return information. As discussed above, we have determined to keep position-level reporting of delta and of country of risk nonpublic.[1330] Regarding the other information, however, while there is some possibility of

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[1328] *See* rule 12-12, n. 5 of Regulation S-X.

[1329] As discussed in section 0., while we do not anticipate that many individual investors will analyze data using Form N-PORT, we believe that individual investors will 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 and other parties, such as industry observers and academics.

[1330] *See, e.g.*, IDC Comment Letter (warning of possible investor confusion from public disclosure of risk metrics); SIFMA Comment Letter I (same); Invesco Comment Letter (same); Schwab Comment

misinterpretation, we believe investors could benefit from the information and, accordingly determined that the disclosure of such information is appropriate and in the public's interest.

For funds that invest in debt instruments or derivatives we are modifying our requirements from the proposing release in several ways that may affect the costs borne by affected filers. For example, as discussed in detail above, we are requiring the reporting of fewer key rates in order to reduce the reporting burden for funds, adding *de minimis* for reporting such metrics for certain currencies, and raising the threshold for fixed income allocation for risk reporting from 20% to 25% to align the reporting requirement with current disclosures required in the prospectus, which could reduce the number of funds that must report such metrics. We are also requiring filers to report DV100 in addition to DV01, which will result in an additional reporting cost relative to the proposal; however, we believe that the extent of such reporting costs will be mitigated because DV100 is among the most common measures of interest rate sensitivity and that it will not be costly to report. Similarly, we are adding the requirement to report net realized gain (or losses) and net change in unrealized appreciation (or depreciation) attributable to derivatives by derivative instrument, in addition to by asset category as proposed, which will add an incremental cost relative to the proposal; however, as discussed above, we understand from commenters that funds already keep this information by derivative instrument type, which should mitigate the incremental increase in cost relative to the proposal.[1331]

As discussed above, although Form N-Q would be rescinded, it would also require funds to file portfolio schedules prepared in accordance with §§210.12-12 to 12-14 of Regulation S-X

Letter (same); ICI Comment Letter (same); CRMC Comment Letter (warning of possible investor confusion from public disclosure of portfolio return information); SIFMA Comment Letter I (same).

[1331] *See supra* section II.A.2.e.

for the fund's first and third fiscal quarters, by attaching those schedules to its reports on Form N-PORT for those reporting periods. The schedules attached to Form N-PORT would be largely identical to the information currently reported on Form N-Q to ensure that such information continues to be presented using the form and content which investors are accustomed to viewing in reports on Form N-Q, and we have modified this requirement from the Proposing Release to allow funds 60 days from the end of the reporting period to file this attachment, as opposed to 30 days as proposed. This should lower the burden of preparing such attachments relative to the proposal, without any change in benefit, as the attachment is intended for investors and quarter-end Form N-PORT filings are made public 60 days after the end of the reporting period.

Rescission of Form N-Q would eliminate certifications of the accuracy of the portfolio schedules reported for the first and third fiscal quarters. Rescission would also result in funds certifying their disclosure controls and procedures and internal control over financial reporting semi-annually (at the end of the second and fourth quarters) 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. 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.

Lastly, registrants also will be required to file the management's statement regarding a change in independent public accountant as an exhibit to reports on Form N-CSR. This exhibit filing requirement originated in Form N-SAR. Commission staff believes that moving this reporting requirement from Form N-SAR to Form N-CSR does not have new economic implications from the proposal. We have, however, attributed an annual burden of an additional one-tenth of an hour per registrant[1332] and approximately an additional $32.40 per registrant[1333] in reporting paperwork costs to Form N-CSR as a result of the modification.

4. Alternatives

The Commission has explored other ways to modernize and improve the utility and the quality of the portfolio investment information that funds provide to the Commission and to investors.[1334] Commission staff examined how portfolio investment 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. We have considered many alternatives to the individual elements contained in this release, and those alternatives are discussed above in the sections pertinent to the major components of this rulemaking.[1335]

[1332] *See infra* footnote1612 and accompanying text.

[1333] *See infra* footnote 1609 and accompanying text.

[1334] We discuss other alternatives to the adopted changes to the current regulatory regime in section 0, below. Other alternatives include the information that funds will report on Form N-PORT relative to the information that funds will report on Form N-CEN, and alternative formats for structuring the data.

[1335] *See generally supra* section 0.

Alternatives to the filing of Form N-PORT and the disclosure of portfolio investment information relate to the timing and frequency of the reports, the public disclosure of the information, and the information that Form N-PORT would request.

Funds will file reports on Form N-PORT no later than 30 days after the close of each month. The monthly reporting and the 30-day reporting lag will increase the timeliness of the information and improve the ability of the Commission to oversee investment companies. Alternatives include extending the filing period from thirty days, as recommended by many commenters, or shortening the filing period, which no commenters specifically recommended,[1336] and to require the filing of monthly portfolio investment information at a quarterly frequency, as recommended by another commenter.[1337] While a shorter filing period would provide more timely information to the Commission, it would also increase the burden on funds that need time to collect, verify, and report the required information to the Commission. Conversely, a longer filing period or a decrease in the frequency in which funds provide monthly information would give funds more time to report the information and may decrease the potential costs from front-running, predatory trading, and copycatting/reverse engineering of trading strategies by other investors,[1338] but may also decrease the ability of the Commission to oversee investment

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[1336] *See, e.g.*, State Street Comment Letter (supporting a 30-day reporting lag, but requesting an additional 15 days for the first year of reporting); Morningstar Comment Letter (supporting a 30- or 45-day reporting lag); Vanguard Comment Letter (supporting a 45-day reporting lag); CRMC Comment Letter (supporting a 60-day reporting lag); Dechert Comment Letter (generally supporting a longer reporting period, or alternatively a longer compliance period to enable the systems necessary to produce accurate information to be developed and implemented).

[1337] *See, e,g.*, Dodge & Cox Comment Letter (supporting quarterly filings of monthly data).

[1338] *See, e.g.*, Dodge & Cox Comment Letter (advocating for quarterly filings of monthly data due, in part, to concerns regarding potential data breaches regarding monthly portfolio data); Morningstar Comment Letter (supporting public disclosure of portfolio investment information at the monthly frequency, citing to the large number of funds already reporting monthly portfolio investment

companies and to identify risks a fund is facing, particularly during times of market stress, as the information is more likely to be stale or outdated. As discussed above in section II.A.3,we believe that the monthly reporting of Form N-PORT with a 30-day filing period appropriately balances the staff's need for timely information against the appropriate amount of time for funds to collect, verify, and report information to the Commission.

As discussed above in section II.A.2.a and in response to comments received, the final amendments now include an instruction that funds report portfolio information on Form N-PORT on the same basis used in calculating NAV under rule 2a-4 (generally a T+1 basis). Alternatives include requiring all funds to file reports on Form N-PORT on a T+0 basis or, providing the reporting fund the explicit option to file reports on Form N-PORT on either a T+0 basis or a T+1 basis, as recommended by a commenter.[1339] Although requiring funds to file reports on Form N-PORT on a T+0 basis would be consistent with the current filing requirements for Form N-CSR and Form N-Q and thus would result in information that is reported on a more consistent basis across reports, the shorter time to file Form N-PORT relative to Form N-CSR and Form N-Q could require funds to alter reporting systems and result in additional filing costs, as pointed out by several commenters.[1340] In addition, although providing funds the option to report on either a T+0 or a T+1 basis would eliminate the potential costs for all funds to alter systems to report on either a T+0 or a T+1 basis, providing funds the option to report on either a T+0 or a T+1 basis would result in information that is less comparable between funds.

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information without significant delay as evidence of a lack of industry concern relating to front-running or copycatting).

[1339] SIFMA Comment Letter II.

[1340] *See, e.g.,* Fidelity Comment Letter; Pioneer Comment Letter; and Invesco Comment Letter.

Funds will have 18 to 30 months after the effective date to comply with the new reporting requirements for Form N-PORT. The compliance period varies with fund size, with smaller fund entities having an additional 12 months to comply with the new reporting requirements. An alternative would be to not allow for tiered compliance and require all investment companies to begin filing reports on Form N-PORT within 18 months. Other alternatives would be to extend the compliance period for all investment companies, as recommended by many commenters.[1341] As discussed above, we believe it is appropriate to tier the compliance period to provide the smaller fund complexes more time to make the system and internal process changes necessary to prepare reports on Form N-PORT. We also continue to believe that 18 months would provide an adequate period of time for larger fund entities, intermediaries, and other service providers to update systems to conduct the requisite operational changes to their systems and to establish internal processes to prepare, validate, and file reports on Form N-PORT with the Commission. Nonetheless, as discussed above, we intend to keep the first six months of filings reported on Form N-PORT after the compliance date nonpublic, to allow funds and the Commission to refine the technical specifications and data validation processes.[1342]

Another alternative for tiered compliance would be to set the threshold at a level different than $1 billion. A higher threshold, such as $20 billion, as recommended by one commenter,[1343] would increase the number of entities that could benefit from the additional time to update systems to adhere to the additional filing requirements, but would also decrease the amount of

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[1341] *See, e.g.,* IDC Comment Letter; Dreyfus Comment Letter; Fidelity Comment Letter; Oppenheimer Comment Letter; Vanguard Comment Letter; MFS Comment Letter; Mutual Fund Directors Forum Comment Letter; ICI Comment Letter; and SIFMA Comment Letter I.

[1342] *See supra* section 0.

[1343] Simpson Thacher Comment Letter.

portfolio investment information that would be available to the Commission, investors, and other interested parties in a structured data format. A lower threshold, on the other hand, would have the opposite effects. As discussed above, the Commission believes that a $1 billion threshold for tiered compliance will address the need for structured portfolio investment information while providing smaller entities in most need of additional time a better opportunity to update systems.

The information that funds report on Form N-PORT for the last month of each fiscal quarter will be made publicly available (with the exception of delta, country of risk, and associated explanatory notes) 60 days after month-end (thirty days after the filing deadline). Additional alternatives include making more of the portfolio and other information reported on the form either nonpublic or public, including making all or none of the information reported on Form N-PORT each month publicly available, as discussed above in section II.A.3.[1344]

In response to comments received we have removed delta, country of risk, and the associated explanatory notes from the public reporting requirements, but we believe that making more of the portfolio and other information reported on Form N-PORT nonpublic 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, including making all of the information reported on Form N-PORT each month publicly available, could increase the risk of front-running, predatory trading, and copycatting/reverse engineering of trading strategies by other investors, as well as the public disclosure of proprietary or sensitive information.[1345] We believe that making the vast majority

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[1344] Commenters had mixed views on the public disclosure of N-PORT information; those comments are discussed *supra* section 0.

[1345] *See infra* section 0

of items reported on Form N-PORT public, as well as keeping eight of the twelve months of data collected by the Commission on Form N-PORT nonpublic, balances the public's need for and the usefulness of the information without unnecessarily subjecting funds to potentially harmful trading strategies by other market participants.

Form N-PORT will require funds to report additional portfolio investment information relative to what is currently reported in Form N-CSR and Form N-Q. Alternatives include not requiring some of this additional information, or requiring information in addition to what will be required to be reported as currently adopted. Other alternatives would be to request information that is more granular, information that is more aggregate, and information that is more consistent with other current regulatory forms or that substitutes compliance with other current regulatory regimes.[1346] Although we recognize that there are various alternative reporting requirements imposed in other contexts and by other regulators, the reporting requirements imposed by Form N-PORT have been designed specifically to meet the Commission's regulatory needs with regards to monitoring and oversight of registered funds. As discussed above, the information reported on Form N-PORT will increase the ability of Commission staff to better understand the risks of a particular fund, a group of funds, and the fund industry. Investors, third-party information providers, and other potential users will also experience benefits from the introduction of Form N-PORT. For example, to the extent that investors use the information, Form N-PORT will improve the ability of investors to differentiate funds based on their investment strategies and other activities. Although the new information

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[1346] One commenter suggested that the Commission should use the same interest rate and credit spread risk metrics as is required in Form PF (BlackRock Comment Letter). Another commenter suggested that the Commission and the CFTC should agree on and implement a substituted compliance regime (SIFMA Comment Letter I).

that will be reported on Form N-PORT could increase the initial and ongoing reporting costs for investment companies, and could increase the likelihood of front-running, predatory trading, and copycatting/reverse-engineering by other investors, the Commission continues to believe that the information is important to fully describe a fund's investments. The Commission also believes that the reporting requirements of Form N-PORT are appropriate given each filer's status as a registered investment company with the Commission and not as a private fund.[1347]

As discussed above, the Commission is requiring funds to report risk metrics at the portfolio and position level on Form N-PORT. In response to commenters' suggestions, we are now requiring the disclosure of measures of duration for a smaller number of key interest rates than we had originally proposed. However, an alternative would be to request those key rates detailed in the proposing release, or even additional measures. As discussed above, we believe that the number of key rates that we are adopting today will provide us with sufficient information and flexibility while also reducing the reporting burden. Other alternatives that would increase the reporting of risk-sensitivity measures include requiring funds to report additional portfolio level measures that describe the sensitivity of a reporting fund at additional basis point changes in interest rates and credit spreads, and a measure (or measures) of convexity, and include requiring funds to report additional position level measures such as vega, as requested by one commenter.[1348] Investment companies could also report fewer portfolio or position level risk-sensitivity measures, such as a single or total portfolio level measure of

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[1347] *See supra* footnote 485 and accompanying text.

[1348] *See* State Street Comment Letter (requesting that funds also be required to report credit spread, delta, duration, yield to maturity, option adjusted spread, exposure, delta-adjusted exposure, duration equivalents, foreign exchange sensitivity/risk, and vega).

interest rate and credit spread duration, as recommended by some commenters,[1349] or instead report the underlying data to calculate the measures, as recommended by another commenter.[1350]

As discussed above and in response to commenters' suggestions, we have made a modification from the proposed requirement to report only DV01 to now require filers to report both DV01 and DV100 on Form N-PORT. The Commission believes that DV100 is among the most common measures of interest rate sensitivity and that it will, in conjunction with DV01, provide more useful information about non-parallel shifts in the yield curve than smaller measures, such as DV25 and DV5, while not requiring filers that do not calculate convexity internally to begin doing so. However, while potentially useful, requiring all funds to report further additional portfolio- or position-level risk-sensitivity measures would increase the burden on all funds and not significantly improve the ability of Commission staff to monitor the funds in most market environments, and in particular for funds which do not extensively use derivatives as part of their investment strategy (while we are requiring funds to report DV100, we believe the marginal cost of reporting it is minimal because we understand that many funds likely already calculate it). Although the burden to investment companies to report risk metrics would decrease if fewer or no risk-sensitivity measures were required by the Commission, the staff believes that the benefits from requiring the measures that we are including in Form N-PORT today, including the ability of Commission staff to efficiently identify and size specific investment risks, justify the costs to investment companies to provide the information. Lastly, we believe that requiring funds to provide the risk measures would improve the ability of the

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[1349] *See* Simpson Thacher Comment Letter; Fidelity Comment Letter; Dreyfus Comment Letter; ICI Comment Letter; and Wells Fargo Comment Letter.

[1350] *See* Vanguard Comment Letter (suggesting that the Commission calculate risk metrics from information that funds report on Form N-PORT).

Commission, investors, or other potential users to efficiently analyze the information rather than requiring funds to provide the inputs that might be necessary for interested parties to calculate these measures themselves,[1351] and would enhance the ability of Commission staff to efficiently identify risk exposures, especially during times of market stress.

Other alternatives to the reporting of portfolio level risk-sensitivity measures relate to the allocation thresholds for funds to report portfolio interest rate risk exposures and currency risk exposures. Given commenters' recommendations, we are raising the threshold for fixed income allocation for risk reporting from 20% to 25%, and providing a *de minimis* threshold for reporting currency risk of 1%. We could, however, require lower/higher thresholds that would result in more/fewer funds reporting interest rate or currency risk exposures, respectively. As discussed above, the Commission believes that the reporting thresholds for Form N-PORT provide Commission staff the ability to analyze interest rate and currency exposures while reducing reporting burdens and the potential that funds inadvertently trigger the reporting requirement when the exposures are not part of its principal investment strategy.

Form N-PORT will also require funds to report terms and conditions of each derivative investment that are important to understanding the payoff profile of the derivative, including the reference instrument.[1352] As discussed above, for reference instruments that are indexes or custom baskets of securities that are not publicly available, Form N-PORT will require funds to report all the components of the index or custom basket if the investment constitutes more than 5% of the fund's NAV, and the top 50 components of the index or custom basket and any components that represent more than 1% of the notional value of the index or custom basket if

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[1351] *See supra* section 0.

[1352] We are requiring similar information on a fund's schedule of investments. *See supra* section 0.

the investment represents more than1% but less than 5% of the fund's NAV. Alternatives would be for funds to report fewer or additional components of the underlying indexes or custom baskets.

Lastly, funds will no longer be required to file reports on Form N-Q. An alternative is for funds to continue reporting Form N-Q along with Form N-PORT at the end of first and third fiscal quarters. 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 will increase the burden of filing Form N-CSR, these certifications will fill the gap in certification coverage regarding the registrant's internal control over financial reporting that would otherwise exist once Form N-Q is rescinded.

C. Amendments to Regulation S-X

1. Introduction and Economic Baseline

Regulation S-X prescribes the form and content required in financial statements. The amendments to Regulation S-X will require new 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.[1353]

The current set of requirements under Regulation S-X, as well as the current practice of many funds[1354] to voluntarily disclose additional portfolio investment 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.[1355] The parties that could be affected by the amendments to Regulation S-X include funds that file or will file reports with the Commission and update or will 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. We did not receive any specific comments on the proposed economic baseline for the amendments to Regulation S-X.

Previously, Regulation S-X did not prescribe specific information to be disclosed 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

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[1353] *See supra* section 0. 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, the amendments will have a consistent presentation of a fund's disclosures of open futures contacts, foreign currency forward contracts, and swaps. In addition, while many of the 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 will be in an unstructured but consistently presented format (as opposed to Form N-PORT's structured data).

[1354] As we discussed *supra* footnote 524, 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 amendments to Regulation S-X apply to both registered investment companies and BDCs. *See supra* footnotes 699 and 700. Therefore, when discussing fund reporting requirements in the context of our amendments to Regulation S-X, we are also including changes to the reporting requirements for BDCs.

[1355] *See* discussion *supra* section 0.

information concerning the terms and underlying reference assets of derivatives to allow investors to understand the investment.

We expect that many of the economic effects from the amendments to Regulation S-X will largely result from an increase in investor ability to make investment decisions dependent on the more transparent disclosure in financial statements, as noted by commenters.[1356] As discussed above, the total economic effects will depend on the extent to which the portfolios and investment practices of all investment companies become more transparent, and the ability of investors, and in particular individual investors, to utilize financial statements to compare funds and to make investment decisions. The economic effects will also depend on the extent to which investment companies already voluntarily provide disclosures that will be required by the amendments, and the extent to which the amendments to Regulation S-X standardize financial statements across funds. 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 amendments are quantified below.

2. Benefits

The amendments to Regulation S-X will benefit investors by updating the information funds disclose in the financial statements of registration statements and shareholder reports. Several commenters noted that the amendments will benefit investors through increased transparency and comparability of fund financial statements, particularly for individual investors that we would not expect to use the information in Form N-PORT because of its structured data

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[1356] *See, e.g.*, PwC Comment Letter ("We believe that the Proposed Rule will generally provide investors with greater access to information relating to their investments and investment advisors."); Deloitte Comment Letter.

format.[1357] In particular, the additional information that Regulation S-X will require for open option contracts both written and purchased, open futures contracts, open forward foreign currency contracts, open swap contracts, and other investments will increase the transparency of the fund's portfolio investments and risk exposures.[1358]

Other amendments will also improve the transparency into the fund's investments. For example, we are requiring funds to identify each investment whose value was determined using significant unobservable inputs.[1359] Likewise, we are requiring that funds separately identify restricted investments.[1360] In addition, in a modification from the proposal, we are now including a requirement that should benefit investors and other users of the information by providing more transparency to a fund's investments in debt securities, and in particular variable rate securities. As discussed more fully below and in section II.C.3, in light of comments we received and in order to give investors both the ability to understand the investment's current return (through end-period rate) and to better understand how interest rate changes could affect the investment's future returns, we are adopting an instruction that would require a fund, for its investments in variable rate securities, to both describe the referenced rate and spread and provide the end of period interest rate for each investment, or include disclosure of each referenced rate at the end of the period.[1361]

[1357] *See* PwC Comment Letter; EY Comment Letter.

[1358] *See, e.g.*, EY Comment Letter and Morningstar Comment Letter for statements in support of these ideas, and MFS Comment Letter and ICI Comment Letter for statements against, as well as the discussion in Section II.C.2.

[1359] *See, e.g.*, rule 12-13, n. 7 of Regulation S-X; *see also* rules 12-13A, n. 5; 12-13B, n. 3; 12-13C, n. 6; and 12-13D, n. 7 of Regulation S-X.

[1360] *See* rule 12-13, n. 6 of Regulation S-X; *see also* rules 12-13A, n. 4; 12-13B, n. 2; 12-13C, n. 5; and 12-13D, n. 6 of Regulation S-X.

[1361] *See* rules 12-12, n. 4 and 12-12B, n. 3 of Regulation S-X.

In a change from the proposal and Form N-PORT, we are requiring funds to separately list the top 50 components and the components that represent more than 1% of the notional value of the referenced assets underlying swap and option contracts, rather than separately listing every component. We believe that this alteration benefits investors by making it easy for them to understand and evaluate the specific risk exposures of a fund from certain swap and option contracts, while simultaneously reducing the reporting burden for funds.

We believe that the changes to the form and content of financial statements in Article 6 of Regulation S-X will similarly benefit investors, particularly individual investors who in general may not have the tools and resources possessed by institutional investors, through greater transparency in a fund's financial statements. For example, we are requiring funds to disclose their investments in derivatives in the financial statements, as opposed to in the notes to the financial statements.[1362] To the extent funds do not do this already, we believe, and commenters agreed, that more prominent placement of investments in derivatives in the financial statements (immediately following the schedules for investments in securities of unaffiliated investors and securities sold short), will benefit investors through increased visibility of fund investments in derivatives and comparability between funds.[1363] Likewise, we are eliminating the financial statement disclosure of "Total investments" on the balance sheet under "Assets".[1364] As we discuss in more detail in section II.C.6, recognizing that funds could present investments in derivatives under both assets and liabilities on the balance sheet, eliminating this disclosure will benefit investors by providing a more complete representation of the effect of these investments

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[1362] *See* rule 6-10(a) of Regulation S-X; *see also* discussion *supra* section 0; *see also* ICI Comment Letter (supporting the requirement to present derivatives schedules in the fund's financial statements).

[1363] *See* State Street Comment Letter; ICI Comment Letter.

[1364] *See* rule 6-04 of Regulation S-X; *see also* discussion *supra* section 0.

on a balance sheet.[1365] Other parties that will 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 will primarily benefit investors and particularly individual investors, the Commission and other market participants could use the information reported in a fund's financial statements, and would benefit from an increase in transparency into a fund's financial statements. For example, Commission staff could utilize the information in a fund's 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 amendments to Regulation S-X, therefore, will effectively standardize the information that all funds disclose on financial statements, and make the schedule of investments and financial statement disclosures consistent and thus more comparable across funds, as noted by commenters.[1366] Similar to new Form N-PORT, the amendments to Regulation S-X, to the extent that they increase the transparency and consistency of shareholder reports across funds, could improve the ability of investors, particularly individual investors, to differentiate investment companies and make investment decisions either by themselves or by way of third-party information providers. An increase in the ability of investors to differentiate investment companies and allocate capital across reporting funds closer to their risk preferences will 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

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[1365] *See id.*

[1366] *See, e.g.*, EY Comment Letter.

efficiently, we also believe that the introduction of Form N-PORT could also promote capital formation.

3. Costs

We believe that registrants on average will likely incur minimal costs from our 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 will be required by the amendments to Regulation S-X in their financial statements.[1367] The costs to a fund of complying with the new rules will depend upon the extent to which funds are already making such disclosures currently.[1368] As discussed above, the Commission will require parallel disclosures in Form N-PORT, and funds will incur one set of costs, both one-time and ongoing, to obtain the information that will be disclosed in Form N-PORT and in financial statements. In addition, other costs that relate to the disclosure of portfolio investment information, including the ability of other investors to front-run, trade predatorily, and copycat/reverse engineer trading strategies of funds, will 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 data format as compared to the non-structured data format of portfolio investment information reported in financial statements.

For example, as discussed above in section II.C.2.a, in response to commenters' concerns relating to the burdens associated with our proposed requirement that funds list all components

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[1367] 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.

[1368] Moreover, as we discussed above in section 0, we expect minimal audit costs as a result of our amendments to Regulation S-X because many funds are already voluntarily providing this information in their audited financial statements.

underlying a nonpublic index or custom basket,[1369] we are instead requiring funds to separately list the top 50 components and the components that represent more than 1% of the notional value of the referenced assets underlying swap[1370] and option contracts.[1371] Commenters noted, and we agree, that the potential volume of all of the components underlying nonpublic indexes and custom baskets were disclosed would make the fund's financial statements difficult to understand.[1372] Thus requiring funds to report only the most significant components 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.[1373] Moreover, limiting the reporting of nonpublic indexes and custom baskets will reduce fund auditing costs by eliminating the burdens of requiring an auditor to verify every component of a nonpublic index, which could potentially include thousands of investments.

We further believe this change provides the necessary benefit without being unduly burdensome. We understand that index providers might assert intellectual property rights to certain indexes, and these may be subject to licensing agreements between the index provider and the fund.[1374] 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.[1375] The Commission does not have information available

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[1369] *See, e.g.*, PwC Comment Letter; Oppenheimer Comment Letter; ICI Comment Letter; and AICPA Comment Letter.

[1370] *See* rule 12-13C, n. 3 of Regulation S-X; *see also* discussion *supra* section 0.

[1371] *See* rule 12-13, n. 3 of Regulation S-X; *see also* discussion *supra* section 0.

[1372] *See* AICPA Comment Letter; and PwC Comment Letter.

[1373] *Id*.

[1374] *See* discussion *supra* sections 0 and 0.

[1375] *See id*.

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 nonpublic index may include costs to both the index provider, whose indexing strategy could be reverse-engineered, and the fund, whose rebalancing trades could be front-run.[1376] Finally, the possibility exists that index providers will refuse to permit disclosure and the funds might not be able to use such indexes any longer. This could potentially drive up competition for index providers, in turn raising costs for funds. Requiring the disclosure of only those proprietary components that meet a materiality threshold could help alleviate some of these costs and concerns. However, the underlying components would be more accessible in Form N-PORT as a result of its structured data format as compared to the non-structured data format of the information in financial statements, so we believe that the costs of disclosing the information will therefore primarily relate to Form N-PORT, and reporting of components will be more comprehensive in Form N-PORT, as discussed in greater detail above.

As another example, the amendments include an instruction to disclose the variable financing rates for swaps that pay or receive financing payments.[1377] 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.[1378] 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

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[1376] *See id.*

[1377] *See* rule 12-13C, n. 3 of Regulation S-X.

[1378] *See, e.g.*, MFS Comment Letter; Invesco Comment Letter; and ICI Comment Letter (public benefit of disclosure does not outweigh potential competitive harm).

transparency could increase the competition among swap and security-based swap dealers to offer favorable fees and financing terms thereby decreasing the fees paid by funds. Counterparties could also, however, choose not to transact with funds as a consequence of this disclosure, in which case competition for counterparties would increase and the fees paid by funds would rise. 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, will instead derive from the similar requirements in Form N-PORT.[1379]

In response to commenters concerns, we also made changes from the proposal to eliminate several disclosures. For example, we are amending our proposed instruction which would require funds to categorize the schedule by type of investment, the related industry, *and* the related country or geographic region.[1380] We agreed with commenters that requiring categorization of both the industry *and* geographic region (as opposed to categorizing one) would add considerable length to the schedule of investments, which could ultimately undermine the schedule's usefulness to investors.[1381] In the interest of reducing burdens for investors and making financial statements easier to review, we are not adopting this proposed requirement.

We similarly determined to eliminate an instruction in Regulation S-X requiring funds to include tax basis disclosures. As discussed above in section II.C.4, this instruction is contained in current rules 12-12, 12-12C, and 12-13 and we proposed to extend the instruction to proposed rules 12-12A, 12-13A, 12-13B, 12-13C, and 12-13D. We were, however, persuaded by

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[1379] *See* 0 of Form N-PORT; *see also* discussion *supra* section 0.

[1380] *See supra* section 0.

[1381] *See* Oppenheimer Comment Letter; State Street Comment Letter; Vanguard Comment Letter; MFS Comment Letter; and BlackRock Comment Letter.

commenters that this disclosure of tax basis by investment type would not provide meaningful disclosure to investors, while increasing the volume and complexity of financial statements.[1382] In the interest of reducing burdens to both investors and funds, while making financial statements easier for investors to understand, we are eliminating the tax basis instruction from the current rules and not adopting it for the other rules.

We also proposed to require funds to identify illiquid investments.[1383] We received several comments noting that, among other things, this disclosure would be difficult and costly to audit, as auditors would be required to determine the validity of the fund's liquidity determinations for each investment. [1384] We were persuaded by comments relating to the costs of auditing liquidity disclosures and, as discussed further in the Liquidity Adopting Release we are adopting concurrently, also believe that such position-level information regarding liquidity is better suited for nonpublic reporting to the Commission in Form N-PORT.

Finally, in order to provide more transparency to a fund's investments in debt securities, we had proposed an instruction requiring a fund to disclose, for its investment in variable rate securities, the referenced rate and spread.[1385] We received several comments supporting our proposal to provide the reference rate and spread for variable rate securities, reasoning that the disclosure of the components of the variable rate would be easier for investors and other interested parties to determine the investment's current rate at any given time (as opposed to the

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[1382] *See, e.g.* PwC Comment Letter; EY Comment Letter; CRMC Comment Letter; State Street Comment Letter; and MFS Comment Letter.

[1383] *See supra* section 0.

[1384] *See, e.g.*, PwC Comment Letter; ICI Comment Letter; and AICPA Comment Letter.

[1385] *See* proposed rule 12-12, n. 4; *see also supra* section 0.

rate at the end of the reporting period).[1386] However, another commenter suggested that the end-period interest rate is the most appropriate variable rate security disclosure for shareholders.[1387] As discussed more fully in section II.C.3, in order to give investors both the ability to understand the investment's current return (through end-period rate) and to better understand how interest rate changes could affect the investment's future returns, we have made a change to the proposed instruction so that it now requires a fund to both describe the reference rate and spread and provide the end of period interest rate for each investment, or include disclosure of each reference rate at the end of the period.[1388] Requiring a fund to disclose both the period-end rate and reference rate and spread will necessarily add costs relating to a fund's financial statement and auditing costs, albeit, we expect that cost to be minimal because these pieces of information are generally not difficult to obtain and verify as, based on staff experience, we believe that this information is currently collected by funds and commonly available in a fund's accounting system.

Funds will 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 will incur one-time and ongoing costs to obtain the additional information that will be disclosed on shareholder reports and registration statements, and that will also not be disclosed on Form N-PORT; and funds will also incur one-time costs to format for presentation all additional information that will be reported in financial statements. In addition, we will require funds, to the extent they do not already do so, to present the schedules

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[1386] *See* State Street Comment Letter; *see also* Morningstar Comment Letter (Disclosure would allow investors to identify when cash flows associated with a fund's returns are fixed or variable).

[1387] *See* Wells Fargo Comment Letter.

[1388] *See* rules 12-12, n. 4 and 12-12B, n. 3 of Regulation S-X.

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.[1389] Funds that do not currently present their schedule of investments in this manner will incur a one-time cost of modifying the presentation of their financial statements to conform to the amendments.

Additionally, we proposed to add a new disclosure requirement that was designed to increase transparency into a fund's securities lending and cash collateral management activities.[1390] Some commenters expressed concerns relating to the location of the required disclosure in the fund's financial statements in particular.[1391] One commenter in particular noted that additional costs of auditing the disclosure of these fees "would most likely outweigh any benefits of reporting this information."[1392] While we continue to believe that investors and other interested parties will benefit from disclosures relating to a fund's securities lending and cash collateral management activities, after consideration of the issues raised by commenters, including the added auditing costs that funds would incur, we determined that it is more appropriate to require these disclosures be made in a fund's Statement of Additional Information (or, with respect to closed-end funds, a fund's reports on Form N-CSR) rather than to require their inclusion in its financial statements.[1393]

[1389] *See* rule 6-10 of Regulation S-X; *see also* discussion *supra* section 0.

[1390] *See* proposed rule 6.03(m) of Regulation S-X; *see also supra* section 0.

[1391] *See* Deloitte Comment Letter (noting that indirect fees "are typically a management's estimate that is imprecise"); EY Comment Letter (stating that "the proposed disclosures would result in the presentation of detailed information with varying degrees of usefulness that could detract from other material information presented in the financial statements" and recommending that "the Commission use other reporting mechanisms more suited for that purpose").

[1392] *See* Deloitte Comment Letter.

[1393] *See supra* section 0.

To the extent possible, we have attempted to quantify these costs. As discussed below in section IV.C, we estimate that management investment companies will incur certain one-time additional paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with the amendments to Regulation S-X in the amount of approximately $1,911 per fund[1394] and $22,662,549 in the aggregate.[1395] We similarly estimate that management investment companies will incur certain ongoing paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with our amendments to Regulation S-X in the amount of approximately $683 per fund[1396] and $8,099,697 in the aggregate.[1397] Likewise, we estimate that UITs will incur certain one-time additional paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with the amendments to Regulation S-X in the amount of approximately $1,911 per fund[1398] and $1,377,831 in the aggregate.[1399] We similarly estimate

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[1394] *See infra* footnote 1562 and accompanying text. The estimate is based upon the following calculations: ($1,911 = ($560 = 3.5 hours x $160/hour for an Intermediate Accountant) + ($1,351 = 3.5 hours x $386/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 inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[1395] *See id*. These estimates are based upon the following calculations: $22,662,549 = (11,859 funds x $1,911 per fund).

[1396] *See id*. The estimate is based upon the following calculations: ($683 = ($200 = 1.25 hours x $160/hour for an Intermediate Accountant) + ($483 = 1.25 hours x $386/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 inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[1397] *See id*. These estimates are based upon the following calculations: $8,099,697 = (11,859 funds x $683 per fund).

[1398] *See infra* footnote 1577 and accompanying text. The estimate is based upon the following calculations: ($1,911 = ($560 = 3.5 hours x $160/hour for an Intermediate Accountant) + ($1,351= 3.5 hours x $386/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

that UITs will incur certain ongoing paperwork and other costs associated with preparing, reviewing, and filing semi-annual reports in accordance with the amendments to Regulation S-X in the amount of approximately $683 per UIT[1400] and $492,443 in the aggregate.[1401]

4. Alternatives

The Commission has also explored other ways to modernize and improve the utility, quality, and consistency of the information that funds report to the Commission and to investors in the financial statements required in shareholder reports and other registration statements. Commission staff examined how the information funds provide to the Commission and to investors could be made more informative and more consistent across funds. Alternatives to the amendments to Regulation S-X relate to the compliance period to adhere to the new amendments and to the information that funds report in the financial statements.

Funds will have 8 months after the effective date to comply with the amendments to Regulation S-X. An alternative would be to extend the compliance period, as suggested by several commenters.[1402] We believe, however, that most entities would not need additional time

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Commission staff to account for an 1800-hour work-year and inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[1399] *See id*. These estimates are based upon the following calculations: $1,377,831 = (721 UITs x $1,911per UIT).

[1400] *See id*. The estimate is based upon the following calculations: ($683 = ($200 = 1.25 hours x $160/hour for an Intermediate Accountant) + ($483 = 1.25 hours x $386/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 inflation, and multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead.

[1401] *See id*. These estimates are based upon the following calculations: $492,443 = (721 UITs x $683 per UIT).

[1402] Fidelity Comment Letter; Oppenheimer Comment Letter; State Street Comment Letter; MFS Comment Letter; Invesco Comment Letter; SIFMA Comment Letter I; and Wells Fargo Comment Letter.

to modify systems to adhere to the amendments to Regulation S-X because, with the exception of the disclosure of index components, the proposed amendments are largely consistent with current fund disclosure practices. As such, we do not expect that funds, intermediaries, or service providers will require significant amounts of time to modify systems or establish internal processes to prepare financial statements in accordance with our final amendments to Regulation S-X. Another alternative would be to provide a tiered compliance period to provide smaller fund complexes more time, as we do for Form N-PORT. However, we do not believe that smaller entities would relatively benefit from additional time, since while fixed costs in general are proportionately higher for smaller entities, the amendments to Regulation S-X do not add additional fixed costs, but rather the amendments are largely consistent with current disclosure practices. Extending the compliance period for all entities or for smaller entities, however, would delay the benefits to investors (and to the Commission and to other market participants) from the increased transparency and standardization of shareholder reports and other financial statements.

The amendments to Regulation S-X will update the information funds disclose in financial statements. Alternatives to the amendments to Regulation S-X include the disclosures of different information. For example, the amendments to Regulation S-X will require funds to report information describing derivative contracts including, in some instances, the components of reference indexes that surpass certain materiality thresholds. As alternatives, we could require funds to only disclose a brief description of the index, require a different threshold for identifying the components of the swap or options contract, or require the reporting of all components. Although the alternatives that would increase the reporting of the components of reference indexes would increase the transparency for investors into the assets underlying a swap

or options contract including the underlying risks of the fund, these alternatives would increase the costs of funds to report the information. However, although the alternatives that would decrease the reporting of the components of reference indexes would decrease the costs to funds to report the information, these alternatives would decrease the ability of investors to understand fund portfolio investments. We believe that the amendments to Regulation S-X adopted today provide investors with sufficient information to broadly understand funds' investments without unduly burdening funds.

Amendments to Regulation S-X will also not require funds to report information describing their securities lending activities in the financial statements, as proposed, but will instead require funds to report the information in the Statement of Additional Information (or, for closed-end funds, their reports on Form N-CSR). An alternative, similar to proposed rule 6.03(m), would be for funds to report information describing their securities lending activities as part of the financial statements. However, the requirement that securities lending information would be disclosed as part of financial statements would increase the costs to audit and report the information.[1403] Another alternative would be for funds to not provide the information altogether. However, we believe that the information is important to investors, the Commission, and other interested parties to understand the economic implications of a fund's securities lending activities. To the extent that investors utilize this information or that it benefits the Commission, we believe that the Statement of Additional Information (or, for closed-end funds, reports on Form N-CSR) is an appropriate place to disclose this information.

Similarly, amendments to Regulation S-X will also not require funds in their financial statements to identify illiquid securities, as was initially proposed. An alternative is to adopt the

[1403] Deloitte Comment Letter.

proposed approach and require funds in their financial statements to identify illiquid securities. The disclosure of the liquidity of securities on financial statements, however, could increase the costs to audit financial statements.[1404] In addition, some commenters asserted the disclosure of security liquidity could cause investors, and in particular individual investors, to misinterpret the information as objective.[1405] As discussed in the Liquidity Adopting Release, we are adopting portfolio-level liquidity reporting on Form N-PORT which we believe mitigates many of the commenters' concerns and is a more appropriate method of public reporting.[1406] Accordingly, we are not adopting the proposed instructions in Regulation S-X relating to the liquidity of investments.

Lastly, amendments to Regulation S-X will include instructions to funds to make a separate disclosure for income from non-cash dividends and payment-in-kind interest on the statement of operations. Funds will report income from payment-in-kind interest or non-cash dividends only if the income exceeds 5 percent of the fund's investment income, as suggested by commenters who requested a materiality threshold, which is consistent with the other income disclosures under rule 6-07.1.[1407] An alternative, similar to the proposal, would be for funds to make a separate disclosure for all income from payment-in-kind interest or non-cash dividends regardless of the amount.

[1404] Deloitte Comment Letter; ICI Comment Letter; and AICPA Comment Letter.

[1405] PwC Comment Letter; Oppenheimer Comment Letter; MFS Comment Letter; Deloitte Comment Letter; Invesco Comment Letter; Schwab Comment Letter; ICI Comment Letter; and AICPA Comment Letter.

[1406] *See* discussion in section 0.

[1407] Several commenters suggested the materiality threshold including MFS Comment Letter; PwC Comment Letter; State Street Comment Letter; ICI Comment Letter; and AICPA Comment Letter; *see also* section 0.

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

1. Introduction and Economic Baseline

Form N-CEN requires funds to report census information to the Commission on an annual basis. Although Form N-CEN includes many of the same data elements as the current census-type reporting form, Form N-SAR, it replaces items that are outdated or no longer informative with items of greater importance for the oversight and examination of investment companies, and eliminates certain items that are also reported to the Commission in other forms. Investment companies will file reports on Form N-CEN in a structured, XML format to allow for easier aggregation and manipulation of the data. Form N-SAR will be rescinded.

The current set of requirements for funds to file reports on Form N-SAR is the baseline from which we discuss the economic effects of Form N-CEN.[1408] The parties that could be affected by the introduction of Form N-CEN and the rescission of Form N-SAR include funds that currently file reports on Form N-SAR and funds that will file reports on Form N-CEN; the Commission; and, other current and future users of fund census 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

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[1408] Management companies must file reports on Form N-SAR semi-annually, and UITs must file reports on Form N-SAR annually. *See* current rule 30b1-1 for management companies, and *see* current rule 30a-1 for UITs.

the information. Likewise, the technology in which Form N-SAR is filed does not allow for certain validation checks, reducing the data quality of the information (*e.g.*, the Form N-SAR application is unable to check related fields for arithmetic consistency) and therefore the ability of Commission staff to compare the information across funds is constrained.

The economic effects from the introduction of new Form N-CEN and the rescission of Form N-SAR will largely result from an update to the format of the information reported, as well as the update to the census information that investment companies will report. The economic effects will 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 requires census information about the fund industry reported in a structured data format. However, while Form N-SAR information is also reported in a structured data format, Form N-CEN information will be reported in XML format, a much more modern and useful data format, and one that allows for more efficient data collection than does the baseline format, aggregation, manipulation, and rendering. Therefore, although the introduction of Form N-CEN will increase the transparency of the fund industry by making the information reported therein more readily available, more easily shared or retrieved, and more relevant, we cannot quantify the significance of its economic implications.

2. Benefits

The Commission is rescinding Form N-SAR and replacing it with new Form N-CEN to improve the quality and the utility of the information investment companies report to the Commission. The improvement in the quality and utility of the information will 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 will improve the ability and efficiency of Commission staff to obtain and analyze the information. An improved structured data format could also promote additional efficiency to the extent that the new standardized reporting requirements encourage more automated report assembly, validation, and review processes for the disclosure and transmission of information.[1409] In ways similar to those discussed above in relation to Form N-PORT, an XML format also improves the quality of census information obtained by the Commission by providing constraints as to how information can be provided and by allowing for built-in validation.[1410]

Form N-CEN also modernizes the census information that funds provide and increases its utility to Commission staff, investors, and other interested parties by reflecting the changes to the fund industry in a structured data format. The Commission will 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.

Along with the other information, Form N-CEN adds new requirements for information specifically relating to the ETF primary markets, including more detailed information on

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[1409] *See, e.g.*, CFA Comment Letter (noting that requiring information to be reported through a structured data format will allow better collection and analysis of information); *see also* XBRL US Comment Letter (expressing the belief that a structured data format will make data computer-readable, consistent and comparable across different reporting entities).

[1410] *See, e.g.*, Morningstar Comment Letter (noting that the XML format will reduce the amount of defective reporting currently possible in Form N-SAR); *see also* XBRL US Comment Letter (while specifically recommending an XBRL structured format, noting that checking the validity of data may still be required but, with structured data, the process can be automated, thereby reducing costs and at the same time increasing the consistency of the data produced).

authorized participants and creation unit requirements.[1411] We believe that the additional information on ETFs will allow the Commission to better understand and assess the ETF market and also inform the public about certain characteristics of the ETF primary markets.[1412] Additionally, Form N-CEN, like Form N-SAR, has particular sections for closed-end funds, SBICs, and UITs in order to obtain information about the particular characteristics of these entities to assist our staff in monitoring the activities of these funds and preparing for examinations.

Form N-CEN also adds 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.[1413] We are also requiring the monthly average value of securities on loan, the net income from securities lending, and the monthly average net assets in the fund.[1414] Together with the requirements on securities lending activities in Form N-PORT and in fund Statements of Additional Information,[1415] this information will benefit the Commission's oversight abilities and, potentially, future policymaking concerning securities lending. Moreover, we believe that this information could

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[1411] *See* discussion *supra* section 0.

[1412] Some commenters supported the inclusion of ETF-specific information in Form N-CEN. *See supra* footnote 1061 and accompanying text; *but see infra* footnote 1429 and accompanying text.

[1413] *See* 0 of Form N-CEN.; *see also* discussion *supra* section 0.

[1414] The monthly average value of securities on loan and the net income from securities lending are being moved from Form S-X to Form N-CEN, while the monthly average net assets is a newly reported value, and while not specifically related to securities lending activity, it will facilitate the use of the monthly average value of securities on loan.

[1415] *See supra* section 0; section 0; and section 0.

inform investors and other interested parties about the use of and potential risks associated with a management company's securities lending activities.[1416]

We expect funds will also benefit from replacing Form N-SAR with Form N-CEN through reduced expenses. First, we estimate that Form 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 items on Form N-SAR that funds will not report on Form N-CEN. Second, funds that are management companies will experience a decrease in paperwork-related expenses from the decrease in the reporting frequency of census information from semi-annual to annual.[1417] As discussed in detail below, we estimate that paperwork expenses associated with reporting on Form N-CEN will be, in the aggregate, about $14.6 million each year.[1418] By contrast, we estimate that paperwork expenses associated with

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[1416] Some commenters expressed general support for reporting securities lending information on Form N-CEN; some commenters expressed certain concerns about particular proposed requirements and we have modified the securities lending requirements in certain respects after consideration of commenters' views. *See supra* section 0.

[1417] See *supra* notes 768–769 and accompanying text for a discussion of commenters' views on the filing frequency. *See also* ICI Comment Letter (stating that reporting this data on an annual, rather than a semi-annual basis, would significantly lessen reporting burdens for funds).

[1418] Below, we estimate that 3,113 funds will file reports on Form N-CEN each year. *See infra* footnote 1532. Below, we estimate that funds will, on average, incur 12.37 burden hours per fund per year to comply with the reporting requirements of Form N-CEN. *See infra* footnote 1532 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 38,508 burden hours to comply with these requirements. This estimate is based on the following calculation: 3,113 funds × 12.37 hours per fund per year = 38,508 hours per year. 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 and compliance attorneys, modified to account for an 1,800-hour work year; multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead; and adjusted to account for the effects of inflation, yielding effective hourly rates of $308 and $340, respectively. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that senior programmers and compliance attorneys would divide their time equally, yielding an estimated hourly wage of $324. ($308 per hour for senior programmers + $340 per hour for compliance attorneys) ÷ 2 = $324 per hour. Based on the Commission's estimate of 38,508 burden hours per year and the

reporting on Form N-SAR are about $25.5 million each year.[1419] Accordingly, we estimate, on net, annual paperwork expense savings to funds associated with the adoption of Form N-CEN and rescission of Form N-SAR will be about $10.9 million.[1420] We recognize that these ongoing annual expense savings will be partially offset by one-time expenses in the first year to file reports on Form N-CEN. We estimate that these expenses would be, in the aggregate, about $20.2 million.[1421] As indicated by commenters, the 75-day period to file Form N-CEN will also

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estimated wage rate of $324 per hour, the total annual paperwork expenses for funds associated with the internal hour burden imposed by the reporting requirements of Form N-CEN are about $12,476,592. This estimate is based upon the following calculation: 38,508 hours per year × $324 per hour = $12,476,592. Below, we also estimate that funds will incur aggregate annual external costs of $2,088,176 to comply with the requirements of Form N-CEN. *See infra* footnote 1538 and accompanying text. Thus the total estimated annual paperwork expenses associated with the reporting requirements of Form N-CEN are $14,564,768. This estimate is based upon the following calculation: $12,476,592 associated with internal burden + $2,088,176 external cost burden = $14,564,768.

[1419] Below, we estimate that, in the aggregate, funds currently incur about 78,561 burden hours to comply with the requirements of Form N-SAR. *See infra* footnote 1541 and accompanying text. 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 and compliance attorneys, modified to account for an 1,800-hour work year; multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead; and adjusted to account for the effects of inflation, yielding effective hourly rates of $308 and $340, respectively. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that senior programmers and compliance attorneys would divide their time equally, yielding an estimated hourly wage of $324. ($308 per hour for senior programmers + $340 per hour for compliance attorneys) ÷ 2 = $324 per hour. Based on the Commission's estimate of 78,561 burden hours and the estimated wage rate of $324 per hour, the total annual paperwork expenses for funds associated with the internal hour burden imposed by the reporting requirements of Form N-SAR are about $25,453,764. This estimate is based upon the following calculation: 78,561 hours per year × $324 per hour = $25,453,764.

[1420] This estimate is based upon the following calculation: $25,453,764 in annual paperwork expenses associated with Form N-SAR - $14,564,768 in annual paperwork expenses associated with Form N-CEN = $10,888,996 in annual paperwork expenses.

[1421] Below, we estimate that 3,113 funds will file reports on Form N-CEN each year. *See infra* footnote 1532. Below, we estimate that funds will, on average, incur 20 additional one-time burden hours per fund in the first year to comply with the reporting requirements of Form N-CEN. *See infra* footnote 1528 and accompanying text. Therefore, in the aggregate, we estimate that such funds would incur about 62,160 one-time burden hours to comply with these requirements. This estimate is based on the following calculation: 3,113 funds × 20 one-time burden hours per fund = 62,260 one-time hours.

benefit funds by staggering the reports that funds file with the Commission at the end of each fiscal year.[1422]

The rescission of Form N-SAR and the introduction of Form N-CEN, to the extent relevant, could provide 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 data 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. However, individual investors may indirectly benefit from the increase in information to the extent that it becomes available through third-party information providers, as these information providers will likely have the capabilities to efficiently collect the data from Form N-CEN and present it for investors in user-friendly format. For certain investors and other potential users that would obtain and use the information that funds report in Form N-CEN directly, the update to the structure of the information should improve their ability to efficiently aggregate the information across all investment companies given the difficulty

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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 and compliance attorneys, modified to account for an 1,800-hour work year; multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead; and adjusted to account for the effects of inflation, yielding effective hourly rates of $308 and $340, respectively. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that senior programmers and compliance attorneys would divide their time equally, yielding an estimated hourly wage of $324. ($308 per hour for senior programmers + $340 per hour for compliance attorneys) ÷ 2 = $324 per hour. Based on the Commission's estimate of 62,260 one-time burden hours and the estimated wage rate of $324 per hour, the total one-time paperwork expenses for funds associated with the internal hour burden imposed by the reporting requirements of Form N-CEN are about $20,172,240. This estimate is based on the following calculation: 60,260 one-time hours × $324 per hour = $20,172,240 one-time expenses.

[1422] CAI Comment Letter; T. Rowe Price Comment Letter; Invesco Comment Letter; and ICI Comment Letter.

associated with extracting information from reports on Form N-SAR, due to its idiosyncratic reporting format.[1423]

The changes to the reporting of census information, including the reporting of the information in a modern structured data 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. In addition, these changes could enhance the ability of investors to understand the investment risks and practices (for example, securities lending activities) of investment companies, and therefore could improve the ability of investors to efficiently allocate capital. Consequently, the reporting changes could promote capital formation.

3. Costs

As discussed above, we expect the new Form N-CEN will be less costly to file than Form N-SAR has been, because Form N-CEN will be filed annually while Form N-SAR is filed semi-annually.[1424] 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 than previously reported.[1425] There could also be costs as a result of the change in the frequency of disclosure of census information. For example, the Commission will receive census information on an annual instead of semi-annual basis, and therefore to the extent that the information changes intra-annually the information will be more dated than if the

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[1423] *See, e.g.*, Morningstar Comment Letter (noting that the XML format will provide more accessible data to the public).

[1424] *See, e.g.*, Dreyfus Comment Letter (noting that the rescission of Form N-SAR and Form N-Q and replacement with Form N-CEN would result in a net reduction of 504 filings annually for the company).

[1425] See *supra* section 0 for a discussion of the ETF requirements.

information was reported to the Commission on a semi-annual basis.[1426] As discussed above, we believe that the costs related to reducing the frequency of the information received on Form N-SAR are not significant as this information is unlikely to change frequently. Also, funds' reporting costs may be reduced by the elimination, in Form N-CEN, of certain items from Form N-SAR that are no longer needed by Commission staff or are outdated in their current form.[1427] In addition, as discussed above, we are moving the change in independent public accountant attachment proposed on Form N-CEN to Form N-CSR so that an accountant's letter regarding a change in accountant will become available to the public semi-annually rather than annually,[1428] which we expect will affect reporting and other costs only minimally. Additionally, we recognize that we are adding some additional information items from the proposal, such as average net assets and CRD numbers for directors, which will result in minor increases in reporting costs relative to the proposal.

As discussed above, some commenters objected to the inclusion of the requirement for each ETF to report the dollar value of the ETF shares that each authorized participant purchased and redeemed from the ETF during the reporting period, expressing concerns that reporting authorized participant activities on Form N-CEN could discourage authorized participants from participating in the ETF market, leading to further concentration in the authorized participant community or authorized participants moving their ETF-related trading activities to banks or

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[1426] However, as discussed *supra* footnote 770, this cost is mitigated, in part, by the fact that certain items from Form N-SAR that the Commission staff has deemed necessary on a more frequent basis are included instead in reports on Form N-PORT.

[1427] *See* discussion *supra* section 0. One commenter did, however, suggest we reconsider the exclusion of several of these items. Comment Letter of Morningstar, Inc. (July 20, 2015).

[1428] *See supra* section II.D.4.b.

"clearing" authorized participants.[1429] We expect that any effects of these reporting requirements on authorized participant participation in the ETF primary market will be minimal. We continue to believe, moreover, that 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, and we believe that adopting the new reporting requirements is appropriate in light of these benefits notwithstanding the possibility that public availability of the information might affect the ETF primary markets in the manner those commenters suggest.

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 will not be included on Form N-CEN but would be available through other filings. The information that will not be included on Form N-CEN and that will not be available elsewhere will impose costs on investors and other potential users from a loss of information to the extent that the information is found to be useful.[1430] One commenter expressed concern that obtaining this information from various sources would reduce its availability to investors and other interested parties, but could be available through third-party information providers.[1431] We have attempted to mitigate the potential cost relating to the loss of information by eliminating only

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[1429] *See supra* footnote 1072 and accompanying text.

[1430] Some of the information that funds will no longer report on a census-form, 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 & David K. Musto, *What do Consumers' Fund Flows Maximize? Evidence from Their Brokers' Incentives*, 68 J. OF FIN. 201 (2013). *See* discussion *supra* section 0.

[1431] *See, e.g.*, Morningstar Comment Letter.

those items which are either available elsewhere, not frequently used by Commission staff, or provide minimal benefit relative to the burdens of reporting such information.

4. Alternatives

Similar to Form N-PORT, the Commission has explored other ways to modernize and improve the utility and the quality of the census information that funds provide to the Commission and to investors. Commission staff examined how census information reported to the Commission could be improved to assist the Commission in its oversight activities, as well as how the information could benefit investors and other potential users of the information. Alternatives to the filing of Form N-CEN and the reporting of census information relate to the timing and frequency of the reports, the public disclosure of the information, the information that Form N-PORT would request, and the rescission of Form N-SAR.

Unlike Form N-SAR, on which management companies file reports on a semi-annual basis, management companies will report information on Form N-CEN on an annual basis. An alternative to the annual reporting of census information in Form N-CEN is a semi-annual reporting of the information similar to Form N-SAR. However, as we discussed above, the census-type nature of the information that we will collect from funds in Form N-CEN should not change as frequently as, for example, portfolio holdings information.[1432] 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-CEN from 75 days. While a shorter filing period, such as 60 days (similar to the proposal) would

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[1432] Unlike Form N-SAR, Form N-CEN will not require funds report information relating to fee and expense information. Morningstar Comment Letter suggested semi-annual reporting of Form N-CEN should fee and expense information be required on Form N-CEN.

provide more timely information to the Commission, [1433] it would also place a burden on funds that need time to collect, verify, and report the required information to the Commission. Several commenters supported extending the filing period to at least a 75-day period, arguing, among other things, that a longer time period would help stagger the filing deadline from other end-of-month filing requirements, ensure that all accounting-related questions could be addressed more completely, and allow the appropriate time needed to update systems to report information in an XML format.[1434] As discussed above, we have been persuaded by commenters to adopt a filing period of 75 days after the fiscal year-end (for management companies) and calendar year-end (for UITs). We believe that the 75-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.

Funds will have 18 months after the effective date to comply with the new reporting requirements for Form N-CEN. An alternative would be to tier the compliance period, similar to the compliance period for Form N-PORT, dependent on entity size. However, as discussed above, we believe that it is less likely that smaller entities would need additional time to file Form N-CEN because the requirement to file Form N-CEN is similar to the current requirement to file Form N-SAR, and we expect that filers will prefer the updated, more efficient filing

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[1433] Several commenters supported the 60-day filing period (Carol Singer Comment Letter and State Street), other commenters supported a longer filing period (MFS Comment Letter; CAI Comment Letter; T. Rowe Price Comment Letter; Invesco Comment Letter; and ICI Comment Letter). One justification for a longer filing period provided by commenters is the time needed to update systems to report information in an XML format (MFS Comment Letter; Invesco Comment Letter; and ICI Comment Letter).

[1434] MFS Comment Letter; CAI Comment Letter; T. Rowe Price Comment Letter; Invesco Comment Letter; and ICI Comment Letter.

format of Form N-CEN.[1435] An additional alternative would be to extend the compliance period. Some commenters suggested that the compliance period be extended to the later of 30 months after adoption of Form N-CEN, or 18 months after the effective date of amendments requiring funds to report liquidity information on Form N-CEN.[1436] Given that much of the information that will be reported on Form N-CEN is currently already reported by funds on Form N-SAR, funds should already have processes and procedures in place to reduce the risk of inadvertent errors. In addition, filings on Form N-CEN are not expected to be as technically complex nor present comparable challenges in terms of reporting and data validation as filings on Form N-PORT. As such, we expect that eighteen months will 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 Form N-CEN with the Commission.

Funds will be required to report to the Commission information in Form N-CEN that will provide staff an ability to identify investment risks and engage in further outreach as necessary. Not requiring the information would substantially reduce the ability of the Commission to oversee the fund industry. In addition, the information reported on Form N-CEN could be important to investors to differentiate investment companies. An alternative to adopting Form N-CEN would be to revise Form N-SAR. The Commission believes, however, that the outdated technology associated with Form N-SAR requires the introduction of a new form in order to

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[1435] No commenters expressed an opinion specifically related to the filing format of N-CEN versus N-SAR.

[1436] *See, e.g.*, Fidelity Comment Letter (suggesting a compliance date of 30 months after the adoption of Form N-CEN); MFS Comment Letter (same); CAI Comment Letter (same); IDC Comment Letter (same); ICI Comment Letter (suggesting the later of 30 months after the adoption of Form N-CEN or 18 months after the adoption of amendments requiring funds to report liquidity information on Form N-CEN).

increase the benefits from the changes made to the reporting of census information. In addition, there were no commenters who explicitly stated that Form N-SAR should not be replaced by Form N-CEN.

The information that funds report on Form N-CEN will be made publicly available. Additional alternatives include making some or all of the census information reported on the form nonpublic. Specific information that could be made nonpublic includes securities lending information,[1437] service provider information,[1438] and ETF authorized participant information.[1439] Making more information reported on Form N-CEN nonpublic would reduce the amount of information available to investors and therefore reduce the ability of investors to differentiate investment companies. For example, one commenter recommended that details concerning indemnification protection should be made nonpublic.[1440] Nonetheless, we continue to believe that public reporting is a necessary part of improving transparency regarding a fund's securities lending activities. Specifically, we believe that the information regarding indemnification provisions is relevant to investors evaluating the risks associated with securities lending and comparing those risks across funds.

[1437] Some commenters suggested that certain securities lending information be kept non-public, including information describing third-party lending arrangements (Fidelity Comment Letter).

[1438] Some commenters suggested that certain service provider information be kept non-public, including the identities of the pricing services used (Interactive Data Comment Letter) and the compensation and other fee and expense arrangements (IDC Comment Letter).

[1439] Some commenters suggested that disclosure of information on authorized participants could discourage APs from participating in the ETF market (Invesco Comment Letter and BlackRock Comment Letter), while others suggested that disclosure of the creation and redemption activity of each AP is not helpful and is confusing to investors (BlackRock Comment Letter). *See supra* footnote 1429 and accompanying text.

[1440] *See* Fidelity Comment Letter.

One set of alternatives is to require funds to report additional information on Form N-CEN, including additional new information that is not currently reported on Form N-SAR.[1441] Another set of alternatives is to require funds to report less information on Form N-CEN. For example, commenters expressed concern about providing new information related to securities lending, service providers, and ETF authorized participants, and one alternative is to not require this information to be provided.[1442] One commenter, however, expressed concern about the exclusion from Form N-CEN of particular items on Form N-SAR.[1443] As discussed above, the adoption of Form N-CEN and the rescission of Form N-SAR will improve the quality and utility of the information investment companies report to the Commission. Although additional information could further increase the benefits of Form N-CEN to Commission staff, investors, and other interested parties, the benefits may not justify the initial and ongoing costs for investment companies to report the information because the Commission believes that the information we are requesting strikes an appropriate balance between the current information needs of Commission staff as well as the developments in the fund industry and the reduction of reporting burdens for registrants, particularly where information may be similarly disclosed or reported elsewhere.[1444]

[1441] Morningstar Comment Letter expressed concern that some of the information that would have been eliminated under the proposal would decrease the availability of the information for investors and other interested parties.

[1442] *See, e.g.*, Fidelity Comment Letter; Interactive Data Comment Letter; and BlackRock Comment Letter; *supra* footnote 1429 and accompanying text.

[1443] Morningstar Comment Letter expressed concern that the exclusion of several Form N-SAR items would then require a manual aggregation of information that would put comprehensive analysis of the information out of reach for investors and fund boards unless they were using services from third-party providers that could aggregate such data.

[1444] *See, e.g., supra* footnotes 941, 968, 989, 1000–1003 and accompanying text.

E. Amendments to Forms Regarding Securities Lending Activities

1. Introduction and Economic Baseline

We are also adopting amendments to Forms N-1A and N-3 to require certain disclosures in fund Statements of Additional Information regarding securities lending activities, as well as amendments to Form N-CSR to require the same information from closed-end funds.[1445] We proposed that similar requirements be included in fund financial statements as part of the proposed amendments to Regulation S-X in order to allow investors to better understand the income generated from, as well as the expenses associated with, a fund's securities lending activities.[1446] Some commenters stated that some of the proposed requirements would yield estimates that may be costly to audit, and that lengthy disclosure concerning securities lending activity in a fund's financial statements could detract from other financial statement disclosures.[1447] After consideration of these issues raised by commenters, we are adopting these disclosure requirements as amendments to the fund registration forms (*viz.*, Forms N-1A and

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[1445] *See* Item 19(i) of Form N-1A; Item 21(j) of Form N-3; Item 12 of Form N-CSR; *see also supra* section 0.

[1446] The proposed requirements would have included disclosure in the fund's financial statements 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 fund 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 fund 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 fund 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. *See* proposed rule 6-03(m) of Regulation S-X; Proposing Release, *supra* footnote 7, at 33624.

[1447] *See* Deloitte Comment Letter; EY Comment Letter.

N-3) or, in the case of closed-end funds, as amendments to Form N-CSR, rather than as amendments to Regulation S-X.[1448]

The final rules will require funds to disclose gross and net income from securities lending activities, fees and compensation in total and broken out by enumerated types, and a description of the services provided to the fund by the securities lending agent. The quantitative disclosure requirements are discussed above in section II.F and also illustrated in Table 2 below.

SECURITIES LENDING ACTIVITIES

Gross income from securities lending activities	**$** _____
Fees and/or compensation for securities lending activities and related services	
Fees paid to securities lending agent from a revenue split	$ _____
Fees paid for any cash collateral management service (including fees deducted from a pooled cash collateral reinvestment vehicle)	$ _____
Administrative fees not included in revenue split	$ _____
Indemnification fee not included in revenue split	$ _____
Rebate (paid to borrower)	$ _____
Other fees not included in revenue split (specify)	$ _____
Aggregate fees/compensation for securities lending activities	**$** _____
Net income from securities lending activities	**$** _____

Table 2

Modifications from the proposed rule include, for example, replacing the proposed requirement that funds disclose the terms governing the compensation of the securities lending agent—including any revenue split—with a requirement to report actual fees paid during the fund's prior fiscal year,[1449] because commenters persuaded us that backward-looking dollar-based requirements would yield clearer disclosure than would the proposed requirements and may also

[1448] *See* Item 19(i) of Form N-1A; Item 21(j) of Form N-3; Item 12 of Form N-CSR.

[1449] *Compare* proposed rule 6-03(m)(4) of Regulation S-X *with* Item 19(i)(1)(ii) of Form N-1A; Item 21(j)(i)(B) of Form N-3 (same); Item 12(a)(1) of Form N-CSR.

enhance disclosure comparability across funds for investors and reduce preparation complexity for funds. Additionally, as discussed above, while the proposed requirements would have included disclosure of all fees and/or compensation paid for securities lending and related services, we have determined that it is appropriate to clarify in the final rules the specific categories of fees and/or compensation that are required to be disclosed.[1450]

The current set of fund registration statement and reporting requirements under Forms N-1A, N-3, and N-CSR (for closed-end funds) is the baseline from which we discuss the economic effects of today's amendments. The parties that could be affected by these amendments include funds that file or will file or update registration statements with the Commission (and closed-end funds that file or will file reports on Form N-CSR), the Commission itself, current and future investors of investment companies, and other market participants that could be affected by the increase in the disclosure of fund securities lending activity information.

We expect that many of the economic effects from the amendments to Forms N-1A, N-3, and N-CSR will largely result from an increase in investor ability to make investment decisions dependent on the more transparent disclosure in fund Statements of Additional Information (or in Form N-CSR for closed-end funds), and the extent to which this transparency enhances the ability of the Commission to utilize the updated disclosures. As discussed above, the economic effects will depend on the extent to which the securities lending practices of all investment companies become more transparent, and the ability of investors—and, in particular, individual investors—to utilize Statements of Additional Information (and reports on Form N-CSR for

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[1450] *Compare* proposed rule 6-03(m)(2) *with* Item 19(i)(1)(ii) of Form N-1A; Item 21(j)(i)(B) of Form N-3; and Item 12(a)(1) of Form N-CSR.

closed-end funds) to compare funds and to make investment decisions. As a result of these factors, some of which are unquantifiable, the discussion below is largely qualitative.

2. Benefits

The amendments to Forms N-1A, and N-3, and N-CSR will benefit investors by enhancing the information funds disclose in the Statements of Additional Information (and reports on Form N-CSR for closed-end funds). We continue to believe that because net earnings from securities lending can contribute to the investment performance of a fund, the Commission, investors and others would benefit from the additional transparency of securities lending fees on the income from these activities. We further believe that the benefits of this additional transparency justify the potential unintended consequences, highlighted by commenters and discussed above, of public disclosure of certain information.[1451]

We have made modifications from the proposed requirements designed to, among other things, enhance comparability of the disclosed information and potentially ameliorate some concerns commenters expressed about the proposed required public disclosure of the terms governing compensation of the securities lending agent. A commenter suggested that we could facilitate comparability by specifying the fees for particular services that must be disclosed,[1452] and we agree. We believe that these clarifications will enhance comparability of the disclosed fees and compensation across funds, and indirectly benefit investors to the extent that other entities, including investment advisers and broker-dealers, utilize the information to help investors make more informed investment decisions.

[1451] *See supra* footnotes 1212–1219 and accompanying text.

[1452] *See* Fidelity Comment Letter.

The comparability of the disclosed fee and expense information may also depend on the nature of the services provided to a particular fund in connection with its securities lending activities. Accordingly, to further enhance the comparability of the disclosed information and allow users to better assess fee and expense information, we have determined to specify that this information should be provided on the basis of the services actually provided to the fund in its most recent fiscal year and the discussion above provides some examples of the types of services that could be enumerated to illustrate such services.[1453]

As mentioned above, we are persuaded that backward-looking dollar-based requirements would yield clearer disclosure than would the proposed requirements and may also enhance disclosure comparability across funds for investors and reduce preparation complexity for funds. This change from the proposal allows investors and others to derive the informational benefit from the disclosure without any potentially sensitive negotiated contractual terms being made public.

3. Costs

We believe that registrants on average will likely incur minimal costs from our amendments to Forms N-1A and N-3, including certain paperwork and other expenses discussed below.[1454]

[1453] Item 19(i)(2) of Form N-1A (requiring disclosure of the services provided to the fund by the securities lending agent (for example and as applicable, locating borrowers, monitoring daily the value of the loaned securities and collateral, requiring additional collateral as necessary, cash collateral management, qualified dividend management, negotiation of loan terms, selection of securities to be loaned, recordkeeping and account servicing, monitoring dividend activity and material proxy votes relating to loaned securities, and arranging for return of loaned securities to the fund at loan termination)); Item 21(j)(ii) of Form N-3 (same); Item 12(b) of Form N-CSR (same).

[1454] *See infra* footnotes 1460–1461 and accompanying text. *See also supra* section III.B.3 for related cost analysis associated with amendments to Form N-CSR.

Several commenters expressed concern that the proposed disclosure requirements could yield information that would suggest, inaptly, that fees and expenses related to securities lending activities among funds are readily compared and contrasted.[1455] While there is the potential for investor confusion with any disclosure, we believe we have mitigated these concerns through changes that we are making from the proposal, such as switching from terms of compensation to backward-looking dollar based requirements and providing clarification in the final rules as to the types of fees and/or compensation that must be enumerated.

Another commenter expressed concerns that the proposed fee and expense information could be used to evaluate the terms of a fund's lending arrangements and could, without access to additional information, result in potentially inappropriate conclusions that a fund negotiated its arrangements poorly or was otherwise disadvantaged in its negotiations.[1456] That commenter noted that the revenue split can depend on numerous factors, including the range, amount, and attractiveness of the securities a fund complex as a whole may make available for loan.[1457] We believe that the modifications we have made from the proposal, discussed above in Section II.F.2, help ameliorate these concerns.

Commenters also expressed concerns with the proposed requirements based on the currently nonpublic character of some of the information that would be required to be disclosed publicly, particularly the proposed requirement to disclose the terms governing compensation of

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[1455] *See* MFS Comment Letter; PwC Comment Letter.

[1456] PwC Comment Letter (particularly with respect to the proposed terms of compensation disclosure requirement); *see also* RMA Comment Letter (concerning borrower rebates).

[1457] PwC Comment Letter.

the securities lending agent.[1458] Commenters argued that some funds currently enjoy privately negotiated competitive advantages with securities lending services or counterparties that could be jeopardized should their arrangements with their securities lending agents be made public.[1459] First, we note that, as discussed herein, we have modified the rule from the proposal and are no longer requiring certain pieces of information be disclosed—specifically, the terms of the revenue split and the terms governing the compensation of the securities lending agent more generally. We acknowledge, as these commenters have asserted, that enhanced transparency into securities lending arrangements could put funds at a competitive disadvantage by affecting the relative negotiating posture of funds that procure securities lending services, or dissuade counterparties from engaging in securities lending altogether, which could drive up the costs of lending services for funds. We believe, however, that the modifications to the proposed requirements that we are making today eliminate the disclosures from the proposed requirements that some commenters indicated could be the most sensitive while retaining the required information that we think will be most useful to investors in understanding the expenses associated with fund securities lending activities. This dollar-based requirement would also eliminate the requirement that potentially sensitive negotiated contractual terms be disclosed.

As mentioned above, we are persuaded that backward-looking dollar-based requirements would yield clearer disclosure than would the proposed requirements, thus mitigating potential

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[1458] *See* AICPA Comment Letter (particularly with respect to the terms governing the compensation of the securities lending agent); Fidelity Comment Letter (particularly with respect to the revenue split); ICI Comment Letter; Invesco Comment Letter; MFS Comment Letter; SIFMA Comment Letter I; Simpson Thacher Comment Letter (particularly with respect to the revenue split); Wells Fargo Comment Letter.

[1459] *See* AICPA Comment Letter; Fidelity Comment Letter; ICI Comment Letter; Invesco Comment Letter; MFS Comment Letter; SIFMA Comment Letter I; Simpson Thacher Comment Letter; Wells Fargo Comment Letter.

costs related to misinterpretation or a false sense of precision by investors. In addition, this switch from terms of compensation to backward-looking dollar-based requirements could yield a cost savings for filers by possibly reducing preparation complexity relative to the proposal.

We expect that funds would incur certain paperwork and other expenses in connection with the new requirements. For funds that file registration statements on Forms N-1A and N-3, as discussed in detail below, we estimate that these paperwork expenses would be, in the aggregate, about $1.3 million each year.[1460] Funds would also incur initial one-time costs associated with establishing systems and procedures for compliance. We estimate that these expenses would be, in the aggregate, about $3.9 million.[1461] For closed-end funds that file

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[1460] Below, we estimate that 9,502 and 16 funds per year could file registration statements on Forms N-1A and N-3, respectively. *See infra* text following footnote 1591. Below, we estimate that funds will, on average, incur 0.5 burden hours per fund per year to comply with the new registration statement requirements. *See id.* Therefore, in the aggregate, we estimate that such funds would incur about 5,038 burden hours to comply with these requirements. (9,502 funds + 16 funds) × 0.5 burden hours per fund per year = 4,759 burden hours per year. 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 intermediate accountants and attorneys, modified to account for an 1,800-hour work year; multiplied by 5.35 to account for bonuses, firm size, employee benefits, and overhead; and adjusted to account for the effects of inflation, yielding effective hourly rates of $160 and $386, respectively. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013. We estimate that intermediate accountants and attorneys would divide their time equally, yielding an estimated hourly wage of $273 per hour. ($160 per hour for intermediate accountants + $386 per hour for attorneys) ÷ 2 = $273 per hour. Based on the Commission's estimate of 4,759 burden hours per year and the estimated wage rate of $273 per hour, the total annual paperwork expenses for funds associated with the new registration statement requirements are approximately $1,299,207. 4,759 hours per year × $273 per hour = $1,299,207 per year.

[1461] Below, we estimate that funds will, on average, incur 1.5 one-time burden hours in the first year to comply with the new registration statement requirements. *See infra* text following footnote 1591. Therefore, in the aggregate, we estimate that such funds will incur about 15,114 one-time burden hours to comply with these requirements. (9,502 funds + 16 funds) × 1.5 one-time burden hours = 14,277 one-time burden hours. Based on the Commission's estimate of 14,277 one-time burden hours and the estimated wage rate of $273 per hour, the total one-time paperwork expenses for funds associated with the new registration statement requirements are approximately $3,897,621. 14,277 one-time burden hours × $273 per hour = $3,897,621.

annual reports on Form N-CSR, we estimate that the new requirements will increase the hour burden associated with the paperwork costs of Form N-CSR for closed-end funds by an additional 2 burden hours with an additional internal cost burden of $648 per fund in the first year,[1462] and an additional 0.5 hours with an additional internal cost burden of $162 per fund for filings in subsequent years.[1463]

4. Alternatives

The Commission has also explored other ways to modernize and improve the utility, quality, and consistency of the information that funds report to the Commission and to investors in the financial statements required in shareholder reports and other registration statements. Commission staff examined how the information funds provide to the Commission and to investors could be made more informative and more consistent across funds. Alternatives to the amendments to Forms N-1A, N-3, and N-CSR to require certain disclosures relate to information that funds report and the location in which the information is reported.

One alternative would be simply to not adopt any new securities lending disclosure amendments. We believe, however, that information regarding securities lending activities can provide investors with insights into fund activities, foster comparability across funds, and contribute to investors making informed investment decisions.

We are adopting amendments to Forms N-1A, N-3, and Form N-CSR to require certain disclosures regarding securities lending activities. Alternatively, we could require these disclosures to be made in the financial statements, in Form N-PORT, or in Form N-CEN. Given that our objective was to make this information available to investors and other users of the data,

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[1462] *See infra* footnote 1610 and accompanying text; *see also infra* section IV.D.7.

[1463] *See infra* footnote 1611 and accompanying text; *see also infra* section IV.D.7.

after consideration of comments we have decided that the Statement of Additional Information (and, with respect to closed-end funds, reports on Form N-CSR) is an appropriate place for funds to be required to disclose this information.

Finally, we could adopt different reporting requirements. For example, we could, as proposed, have required funds to disclose the terms of compensation in securities lending agreements rather than the backward-looking, dollar-based values. However, as discussed previously, commenters suggested, that doing so could result in the loss of privately negotiated competitive advantages or a decrease in the number of counterparties willing to participate in the securities lending market, and we believe that the requirements, as adopted eliminate the disclosures from the proposed requirements that commenters indicated could be the most sensitive while retaining the required information that we think will be most useful to investors in understanding the expenses associated with fund securities lending activities. Hence, we have decided against such an alternative.

F. Other Alternatives to the Reporting Requirements

The Commission has explored additional ways to modernize and improve the utility and the quality of the information that funds provide to the Commission and to investors. The Commission has considered many alternatives to the individual elements contained in new Form N-PORT, amendments to Regulation S-X, and new Form N-CEN; alternatives specific to each of the new reporting requirements are discussed above. The following discussion addresses other significant alternatives which involve aspects of fund reporting that pertain to more than one of the new reporting requirements.

The Commission considered the information that will 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 reporting of information on a more frequent basis imposes additional costs on funds, Commission staff believes the information that will be reported more frequently on Form N-PORT, relative to the annual reporting on Form N-CEN, is necessary for the Commission's oversight activities and could be important to other interested third-parties. Commission staff also considered the benefits of identification information to link information between forms and with other sources of information, with the costs to funds to obtain and report the identification information on the new forms.

The Commission is requiring that investment companies file Form N-PORT and Form N-CEN in an XML structured data 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 with which the information investment companies provide can be compiled and aggregated. Commission staff believes that the affected parties would experience substantially less benefit from the reporting of investment company information if the information is not structured because of the time it would take to parse the information and the potential for errors in data due to the fact that unstructured data cannot be validated during the filing process. In addition, based on the Commission's understanding of current practices, it is likely that many investment companies and third party service providers have systems in place to accommodate the use of XML. Furthermore, based on our experiences with Forms N-MFP and PF, both of which require filers to report information in an XML format, we continue to believe that requiring funds to report information on Forms N-PORT and N-CEN in an XML format will provide the information that we seek in a timely and cost-effective manner. Therefore, requiring information in a format such as XML should impose minimal costs. The Commission will 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 data format. The Commission 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 adopted rules, and we have therefore considered alternative formats for structuring the data.[1464] Some commenters suggested XBRL, a tagged system that is based on XML and was created specifically for the purpose of reporting financial and business information,[1465] so as to leverage existing data definitions and reduce implementation costs.[1466] However, as noted earlier we believe that requiring funds to report information on Form N-PORT in XML will be both efficient and cost-effective for funds. Sending a data file from a sender to a recipient requires many conditions to be satisfied, and among those of crucial importance to regulatory data collection are compact transmission and efficient validation. XML Schema provides a widely used validation framework for XML, and is supported in all modern programming languages. The nature of the information we are collecting also lends itself to XML schema for almost all

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[1464] One commenter suggested a pre-formatted web portal or web form as well as the further development of inline structured data to ease reporting burdens (Schnase Comment Letter). We believe, however, that the volume of data for a fund to report on Form N-PORT would not lend itself to a manual entry approach, although we are considering the possibility of providing an online form for filers to use at their option for filing Form N-CEN, as we have with some other Commission Forms, such as Form 13F.

[1465] *See, e.g.*, XBRL US Comment Letter; Deloitte Comment Letter; *but see* Morningstar Comment Letter ("Extensible Business Reporting Language has had very limited success, and certain aspects of the standard are too lenient for regular data validation.").

[1466] For example, public companies currently use XBRL taxonomies to file reports with the SEC, including investment companies that voluntarily file structured data on Form N-CSR.

validation,[1467] and the arithmetic validations not supported natively in XML Schema are straightforwardly expressible in any number of languages. For this data set, the additional flexibility offered by a broader XML based framework such as XBRL incurs data volume and processing overhead with little incremental benefit; for example, the information funds will report will be as of a single reporting date, the units of measurement are predetermined or are constrained by the data type, and there is little value in customizing the content or presentation.

Finally, one commenter stated that we should not require funds to directly report information on their own behalf, but instead require other entities such as transfer agents and custodians to report information on behalf of funds.[1468] Given our expertise and experience in regulating, examining, and overseeing funds, including fund reporting, recordkeeping, and compliance, we continue to believe that obtaining such information directly from funds is appropriate.

IV. PAPERWORK REDUCTION ACT

New forms Form N-CEN and Form N-PORT contain "collections of information" within the meaning of the Paperwork Reduction Act of 1995 ("PRA").[1469] In addition, the amendments to Articles 6 and 12 of Regulation S-X will impact the collections of information under rules 30e-1 and 30e-2 of the Investment Company Act,[1470] and the amendments to Forms N-1A, N-2,

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[1467] Some commenters discussed the additional benefits from the types of validation that can be conducted with XBRL (XBRL US Comment Letter and AICPA Comment Letter).

[1468] *See* Federated Comment Letter ("It would also reduce the reporting burden on funds for the Commission to acquire information directly from custodians and transfer agents, which are proficient in maintaining and reporting portfolio holdings and other information.").

[1469] 44 U.S.C. 3501 through 3521.

[1470] 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.

N-3, N-4, N-6, and N-CSR under the Investment Company Act and Securities Act will impact the collections of information under those forms. Furthermore, implementation of new Forms N-PORT and N-CEN will coincide with rescission of Forms N-Q and N-SAR, thus eliminating the collections of information associated with those forms and impacting the collections of information under Form N-CSR.

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);[1471] "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 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

[1471] 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, we are rescinding Form N-Q and requiring certain funds to file Form N-PORT pursuant to new rule 30b1-9. With this in mind, we are discontinuing the information collection for rule 30b1-5.

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); "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). The titles for the new collections of information are: "Form N-CEN Under the Investment Company Act, Annual Report for Registered Investment Companies" (OMB Control No. 3235-0729 for N-CEN) and "Form N-PORT Under the Investment Company Act, Monthly Portfolio Investments Report" (OMB Control No. 3235-0730).

We published notice soliciting comments on the collection of information requirements in the Proposing Release and submitted the proposed collections of information to the Office of Management and Budget ("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 adopting new forms Form N-CEN and Form N-PORT 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

Certain funds will be required to file an electronic monthly report on Form N-PORT within thirty days after the end of each month. Form N-PORT is intended to improve transparency of information about funds' portfolio holdings and facilitate oversight of funds. The information required by Form N-PORT will be data-tagged in XML format. The respondents to Form N-PORT will be management investment companies (other than money market funds and small business investment companies) and UITs that operate as ETFs. Compliance with Form N-PORT will be mandatory for all such funds. Responses to the reporting requirements will be kept confidential for reports filed with respect to the first two months of each quarter; the third month of the quarter will not be kept confidential, but made public sixty days after the quarter end.

In the Proposing Release, we estimated that 10,710 funds[1472] 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 structured data filings, we estimated 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

[1472] 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.

estimated that 35% of funds (3,749 funds) would license a software solution and file reports on proposed Form N-PORT in house.[1473] We further estimated 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[1474] and an average of approximately 14 burden hours for subsequent filings.[1475] Therefore, we estimated the per fund average annual hour burden associated with proposed Form N-PORT for 3,749 fund filers would be 198 hours for the first

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[1473] *See* Money Market Fund Reform 2014 Release, *supra* footnote 33, 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).

[1474] We anticipated 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 estimated 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 estimated 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 estimated that it would initially take up to 15 hours to connect the risk metrics data to the software and 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* footnote 1475 (discussing the additional 30% burden added to the current Form N-Q estimate). We also noted 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, however, we took a conservative approach and did not account for such potential economies of scale.

[1475] We anticipated that most of the burden associated with licensing a software solution, as discussed above, would be a one-time burden. Accordingly, we estimated 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 did not ascribed any time to collecting the required information. *See also supra* footnote 1474 (noting that our estimates do not account for economies of scale).

year[1476] and 168 hours for each subsequent year.[1477] Amortized over three years, the average aggregate annual hour burden would be 178 hours per fund.[1478]

In the Proposing Release, we further estimated 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.[1479] 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 anticipated that funds and their third-party service providers would 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 estimated 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[1480] and an average of approximately 9

[1476] 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.

[1477] This estimate is based on the following calculation: 12 filings x 14 hours = 168 burden hours in each subsequent year.

[1478] The estimate is based on the following calculation: (198 + (168 x 2)) / 3 = 178.

[1479] *See* Money Market Fund Reform 2014 Release, *supra* footnote 33, 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).

[1480] 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 estimated that it would 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 estimated 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 used the higher burden hours estimated for using a third party service provider in order to be conservative in our estimates because we lacked data on the number of funds that currently have an automated portfolio reporting process in place. *See supra* footnote 1474 (discussing the burdens associated with licensing a software solution and filing reports on proposed Form N-PORT in house); *see also supra* footnote 1474 (noting that our estimates did not account for economies of scale).

burden hours for subsequent filings.[1481] Therefore, we estimated 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[1482] and 108 hours for each subsequent year.[1483] Amortized over three years, the average aggregate annual hour burden would be 125 hours per fund.[1484]

In sum, we estimated that filing reports on proposed Form N-PORT would impose an average total annual hour burden of 1,537,572 on applicable funds. [1485]

In the Proposing Release, we noted that 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 structured data filings, we estimated 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.[1486] In addition, we estimated that funds that would use a service provider to prepare

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[1481] We anticipated that most of the burden associated with third-party aggregation and validation would be the result of creating an automated process, as discussed above, and thus would be a one-time burden. Accordingly, we estimated approximately 9 hours per fund for subsequent filings. This estimate was 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 did not ascribe any time to collecting the required information. *See also supra* footnote 1474 (noting that our estimates did not account for economies of scale).

[1482] The estimate is based on the following calculation: (1 filing x 60 hours) + (11 filings x 9 hours) = 159 burden hours per year.

[1483] The estimate is based on the following calculation: 12 filings x 9 hours = 108.

[1484] The estimate is based on the following calculation: (159 + (108 x 2)) / 3 = 125.

[1485] The estimate is based on the following calculation: (3,749 x 178 hours) + (6,962 x 125 hours) = 1,537,572.

[1486] We estimated 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 will be filed in reports pursuant to proposed Form N-PORT, we

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.[1487] In sum, we estimated that all applicable funds would incur on average, in the aggregate, external annual costs of $97,674,221.[1488]

We received two comments on proposed Form N-PORT's estimated hour and costs burdens. One commenter, who submitted a comment letter on behalf of certain asset management firms focused on alternative investment strategies, stated that the proposed estimates of hours and costs were not realistic.[1489] The commenter stated that, based on its outreach, several firms were currently spending more than 198 hours per year on investment company quarterly reporting.[1490] This commenter additionally noted that Form N-PORT requires more information than current quarterly reports, particularly for funds that implement "alternative" strategies, and must be filed monthly. The commenter also indicated that at least one firm they reached out to anticipated hiring one or more full-time equivalents to handle the reporting requirements. We do not agree with the commenter's suggestion that the burden

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increased our external cost estimate for funds filing in house on proposed Form N-PORT by 30% (or $1,109).

[1487] We estimated 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 will be filed in reports pursuant to proposed Form N-PORT, we increased our estimate for funds filing through a third-party service provider on proposed Form N-PORT by 30% (or $2,640).

[1488] This estimate is based on the following calculation: (3,749 funds that will file reports on proposed Form N-PORT in house x $4,809 per fund, per year) + (6,962 funds that will file reports on proposed Form N-PORT using a third-party service provider x $11,440 per fund, per year) = $97,674,221.

[1489] *See* Simpson Thacher Comment Letter.

[1490] *See id*. The commenter noted that in the Proposing Release that we estimated 198 burden hours in the first year, and 168 hours thereafter "for each investment company." As noted in the proposing release, 168 hours was the Commission's "per fund" burden hour estimate for the first year for funds preparing and filing the reports in house, where "fund" is a registered management investment company *and any separate series thereof*. It is not clear from the comment letter whether firms that provided estimates to the commenter were providing estimated burdens for quarterly reporting per fund series, per investment company, or per fund complex. For purposes of the PRA, however, we conservatively assume it is per fund series.

estimates it compiled based on outreach to firms regarding their current time spent on quarterly reporting is necessarily inconsistent with the burden estimates we proposed. We understand that the burden will vary across funds depending on the size of the fund, the size of the fund complex, and the complexity of the portfolio, among other factors. The burden for some funds will exceed our estimate, and the burden for others will be less due to the nature of the fund. Also, while it is true that Form N-PORT will require more frequent reporting and information not currently required for quarterly reporting, not all requirements for quarterly reporting, such as reporting on a T+0 basis, will be required on Form N-PORT. Thus, the commenter's estimates, which revolved around alternative strategy funds, appear to be within, but on the high end of the Commission's estimates.

Another commenter suggested that complying with Form N-PORT reporting requirements could cost $800,000 to $1,500,000 for the fund complex (of approximately 250 funds).[1491] The commenter specified that the initial burden associated with the proposed requirements would be over 6000 hours in total to conduct analysis, develop and test newly created interfaces between the reporting solution and internal and external data sources in an attempt to automate the collection, aggregation, and validation of data reported on Form N-PORT. The commenter further asserted that ongoing reporting requirements on Form N-PORT may require a support team of up to 10-15 members. The commenter's estimates of initial burden hours are therefore approximately 24 hours, based on a complex of 250 funds, lower than our proposed estimated initial filing burden of 44 hours per fund for fund filers filing in-house, and 60 hours per fund for fund filers retaining a third party service provider. Assuming the support team was 15 members (*i.e.*, the high end of the range set forth by the commenter), and a

[1491] *See* Invesco Comment Letter.

2,000 hours work year, the commenter's annual estimated burden to file reports on Form N-PORT would be approximately 120 hours per fund.[1492] This is in the range of our proposed annual estimate of 168 hours per year for fund filers filing in house and 108 hours per year for fund filers retaining a third-party service provider. Finally, assuming that the dollar estimates that the commenter cited of between $800,000 to $1,500,000 were additional external costs of reporting on Form N-PORT, the commenter's estimated external costs would be between $3,200 and $6,000 per fund. These are in the range of our estimated external costs per fund (not including monetization of internal burden hours) of $4,805 per year for fund filers filing in house, and $11,440 per year for fund filers using a service provider.

As discussed above, our adoption includes some modifications from the proposal that address concerns raised by commenters and that are intended, in part, to decrease reporting and implementation burdens relative to the proposal.[1493] We believe that our modifications from the proposal will reduce the estimated initial burden hours associated with implementation of Form N-PORT reporting requirements, relative to the proposal, particularly for funds that will be required to report risk metrics or custom derivatives transactions but will not affect external costs or ongoing burden hours. Based on our review of funds and the new reporting requirements, we believe that, on average, the initial burden to file reports on Form N-PORT will decrease by 0.5 hours, resulting in an initial burden of 43.5 hours per fund for the 35% of funds that choose to file reports on Form N-PORT in-house, and 59.5 hours for the 65% of funds that choose to retain a third-party service provider.[1494]

[1492] 15 members x 2000 hours = 30,000 hours. 30,000 hours / 250 funds = 120 hours.

[1493] *See supra* section III.B.2.

[1494] *See supra* footnotes 1474 (estimating an initial burden of 44 hours per fund in the Proposing Release for the 35% of funds that choose to file reports on Form N-PORT in-house) and 1480 (estimating an

We have revised our estimate of the number of funds that will file Form N-PORT upward from 10,710 funds to 11,382 funds to reflect updates to the industry data figures that were utilized in the Proposing Release.[1495] We continue to estimate that 35% of funds (3,984 funds, updated from 3,749 in our proposal) will license a software solution and file reports on Form N-PORT in house, and 65% of funds (7,398 funds, updated from 6,962 funds in our proposal) will 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 Form N-PORT.[1496] The Commission estimates that, on an annual basis, funds generally will incur in the aggregate 1,959,423 burden hours in the first year and an additional 1,468,296 burden hours for filings in subsequent years in order to comply with Form N-PORT filing requirements.[1497] Amortized over three years, the total annual hour burden of filing reports on Form N-PORT will be 1,632,005 hours, with an average annual hour burden of 143 hours per fund.[1498]

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initial burden of 60 hours per fund in the Proposing Release for the 65% of funds that choose to retain a third-party service provider).

[1495] This estimate of 11,382 funds includes 9,039 mutual funds (excluding money market funds), 1,594 ETFs (including eight ETFs organized as UITs and 1,586 ETFs that are management investment companies), and 749 closed-end funds (excluding SBICs). Based on data obtained from the ICI and reports filed by registrants on Form N-SAR. *See supra* footnote 1259 and accompanying and following text; *see also* 2016 ICI Fact Book, *supra* footnote 2, at 22, 176.

[1496] These estimates are based on the following calculations: 3,749 funds = 11,382 funds x 0.35. 7,398 funds = 11,382 funds x 0.65.

[1497] These estimates are based on the following calculations: 1,959,423 hours in the first year = (3,984 funds x 43.5 hours for the first filing for funds filing in-house) + (3,984 funds x 14 hours for each subsequent filing x 11 filings) + (7,398 funds x 59.5 hours for the first filing for funds retaining a third-party service provider) + (7,398 funds x 9 hours for each subsequent filing x 11 filings). 1,468,296 hours in subsequent years = (3,984 funds filing in-house x 14 hours x 12 filings) + (7,398 funds retaining a third-party service provider x 9 hours x 12 filings).

[1498] These estimates are based on the following calculations: 1,632,005 hours amortized over three years = (1,959,423 hours + (1,468,296 hours x 2)) / 3. 143 hours per fund = 1,632,005 hours / 11,382 funds.

We further estimate the total annual external cost burden of compliance with the information collection requirements of Form N-PORT will be $103,787,680, or $9,118 per fund.[1499]

2. Rescission of Form N-Q

In connection with our adoption of Form N-PORT, and as proposed, our reforms will rescind Form N-Q in order to eliminate unnecessarily duplicative reporting requirements. The rescission of Form N-Q will affect all management investment companies required to file reports on the form.

In our proposal, we estimated 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.[1500] We received no comments on this estimate.

We have revised our estimate of the number of funds that would file Form N-Q upward from 10,453 funds to 11,863 funds to reflect updates to the industry data figures that were utilized in the Proposing Release.[1501] Accordingly, we estimate that, in the aggregate, our rescission would eliminate 249,123 annual burden hours that would be associated with filing

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[1499] These estimates are based on the following calculations: $103,776,240 = (3,984 funds x $4,805) + 7,398 funds x $11,440). $9,118 per fund = $103,787,680 / 11,382 funds.

[1500] This estimate is based on the following calculation: 219,513 hours per year = 10,453 funds x 10.5 hours x 2 filings per year. Management investment companies currently are required to file a quarterly report on Form N-Q after the close of the first and third quarters of each fiscal year.

[1501] This estimate of 11,863 funds includes 9,520 mutual funds (including money market funds), 1,594 ETFs, and 749 closed-end funds (excluding SBICs). Based on data obtained from the ICI and reports filed by registrants on Form N-SAR. *See supra* footnote 1259 and accompanying and following text; *see also* 2016 ICI Fact Book, *supra* footnote 2, at 22, 176.

Form N-Q.[1502] Additionally, we 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 amended, rule 30a-1 will require all funds to file reports on Form N-CEN with the Commission on an annual basis.[1503] Similar to current Form N-SAR, Form N-CEN requires reporting with the Commission of certain census-type information. However, unlike Form N-SAR, which requires semi-annual reporting for all management investment companies, Form N-CEN requires annual reporting.[1504] Form N-CEN will be a collection of information under the PRA and is designed to facilitate the Commission's oversight of funds and its ability to monitor trends and risks. This new collection of information will be mandatory for all funds, and responses will not be kept confidential.

In the Proposing Release, we estimated that the Commission would receive an average of 3,146 reports per year, based on the number of existing Form N-SAR filers.[1505] We estimated that management investment companies would each spend as much as 13.35 hours annually, preparing and filing reports on proposed Form N-CEN.[1506] The Commission further estimated that UITs, including separate account UITs, would each spend as much as 9.11 hours annually,

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[1502] This estimate is based on the following calculation: 249,123 hours per year = 11,863 funds x 10.5 hours x 2 filings per year.

[1503] For purposes of the PRA analysis, the burdens associated with amended rule 30a-1 are included in the collection of information estimates of Form N-CEN.

[1504] UITs are only required to file Form N-SAR on an annual basis. *See* rule 30a-1.

[1505] This estimate was based on 2,419 management companies and 727 UITs filing reports on Form N-SAR as of December 31, 2014.

[1506] Our estimate included 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.

preparing and filing reports on proposed Form N-CEN, since a UIT would be required to respond to fewer items.[1507]

As discussed below, we estimated that management investment companies each spend as much as 15.35 hours preparing and filing each report on Form N-SAR. We noted that we 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, we noted that 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 noted our belief that reports in XML on proposed Form N-CEN would 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 reports on proposed Form N-CEN should be a reduced burden from the hour burden associated with Form N-SAR.[1508] As such, we estimated that the annual hour burden for management companies would be 13.35 per report on proposed Form N-CEN, down from 15.35 hours per report for Form N-SAR.

In the Proposing Release, we also noted that UITs may, however, experience an increase in the hour burden associated with census-type reporting if proposed Form N-CEN were adopted because UITs would be required to respond to more items in the form than they are currently

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[1507] *See* Proposing Release, *supra* footnote 7, at 33675.

[1508] 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 estimated 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 estimated 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 × 2 reports) – 13.35 Form N-CEN burden hours = 17.35 hours.

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 increased the estimated annual hour burden for each UIT from 7.11 hours in the currently approved collection for Form N-SAR to 9.11 hours for proposed Form N-CEN.

We also noted our belief that, in the first year reports on the form are filed, funds may require additional time to prepare and file reports. We estimated that, for the first year, each fund would each require 20 additional hours.[1509] Accordingly, we estimated that management investment companies would each require 33.35 annual burden hours in the first year[1510] and 13.35 annual burden hours in each subsequent year for preparing and filing reports on proposed Form N-CEN. Additionally, we estimated that UITs would each require 29.11 annual burden hours in the first year[1511] and 9.11 annual burden hours in each subsequent year for preparing and filing reports on proposed Form N-CEN.

In the Proposing Release, we further estimated that the average annual hour burden per response for proposed Form N-CEN for the first year would be 32.37 hours[1512] and 12.37 hours in subsequent years.[1513] Amortizing the burden over three years, we estimated that the average

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[1509] 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.

[1510] This estimate is based on the following calculation: 13.35 hours for each filing + 20 additional hours for the first filing = 33.35 hours.

[1511] This estimate was based on the following calculation: 9.11 hours for each filing + 20 additional hours for the first filing = 29.11 hours.

[1512] This estimate was based on the following calculation: ((2,419 management investment companies × 33.35 hours) + (727 UITs × 29.11 hours)) ÷ 3,146 total funds = 32.37 hours.

[1513] This estimate was based on the following calculation: ((2,419 management investment companies × 13.35 hours) + (727 UITs × 9.11 hours)) ÷ 3,146 total funds = 12.37 hours.

annual hour burden per fund per year would be 19.04[1514] and the total aggregate annual hour burden would be 59,900.[1515]

With respect to the initial filing of a report on Form N-CEN, we estimated an external cost of $220 per fund and, with respect to subsequent filings, we estimated an annual external cost of $120 per fund.[1516] We estimated the amortized annual external cost per fund would be $153.[1517] We also estimated that no external cost burden was 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 maintaining an LEI for the registrant/ funds.[1518] In sum, we estimated that all applicable funds would incur, in the aggregate, external annual costs of $1,748,637.[1519]

One commenter expressed the general belief that requiring census-type data on Form N-CEN on an annual basis, rather than on a semi-annual basis on Form N-SAR, would significantly lessen reporting burdens for funds and lower costs for fund shareholders when compared to the status quo.[1520] We agree and continue to believe the estimated hour and cost burdens associated with Form N-CEN estimated in the Proposing Release reflect this reduction

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[1514] This estimate was based on the following calculation: (32.37 hours per management company in first year + (12.37 in each year thereafter × 2 years)) ÷ 3 years = 19.04 hours per year.

[1515] This estimate was based on the following calculation: 3,146 funds × 19.04 hours per fund per year = 59,900 hours per year.

[1516] *See* Proposing Release, *supra* footnote 7, at n.766 (discussing the costs associated with registering and maintaining an LEI).

[1517] This estimate was based on the following calculation: ($220 in first year + (2 years × $120 each subsequent year)) ÷ 3 years = $153 per year.

[1518] *See* 0 and 0 of Form N-CEN (requiring LEI for the registrant and each series of a management company).

[1519] This estimate was based on the following calculation: $153 per year per fund × 11,429 funds = $1,748,637 per year.

[1520] *See* ICI Comment Letter.

in burdens and costs. With the exception of this comment, we did not receive comments on the estimated hour and costs burdens discussed above associated with reporting census-type information on Form N-CEN.

As discussed above, our adoption of Form N-CEN includes a number of modifications or clarifications from the proposal that address concerns raised by commenters and that are intended, in part, to decrease reporting and implementation burdens relative to the proposal. For example, we have extended the filing period for Form N-CEN from 60 days, as proposed, to 75 days to, in part, respond to commenters' concerns that 60 days would not provide funds the time necessary to collect, verify, and report information on Form N-CEN.[1521] We also have modified the proposal by moving the management's statement regarding a change in independent public accountant originally filed on Form N-SAR from an attachment to Form N-CEN, as proposed, to an exhibit to Form N-CSR, thereby shifting burden associated with this exhibit filing from Form N-CEN to Form N-CSR. However, we recognize a few reporting items and sub-items have been added to the form that were not contemplated in the burden hours and costs we estimated in the Proposing Release. For example, we are adopting a requirement that a fund (other than a money market fund) provide its monthly average net assets during the reporting period,[1522] and we are also requiring the reporting of CRD numbers for directors.[1523]

We believe that certain of the modifications from and clarifications to the proposal that we are adopting today will generally reduce the estimated burden hours and costs associated with implementation of Form N-CEN reporting requirements relative to the proposal, while a few

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[1521] *See supra* section 0.

[1522] *See supra* footnotes 1016–1021 and accompanying and following text.

[1523] *See supra* footnotes 823-824 and accompanying text.

others will increase those estimates. For these reasons, we believe that the net effect of such modifications from the proposal will not have a net impact on the estimated burden hours and costs stated in the Proposing Release. Accordingly, we are not estimating a change to the proposed per-fund estimates as a result of the modifications we have made to the proposed requirements. The Commission, however, has modified the estimated increase in aggregate annual burden hours and external costs that will result from reporting requirements on Form N-CEN in light of updated data regarding the number of management investment companies and UITs.

We have revised our estimate of the number of reports on Form N-CEN per year downward from 3,146 reports to 3,113 reports to reflect updates to the industry data figures that were utilized in the Proposing Release.[1524] We continue to estimate that management investment companies will each spend as much as 13.35 hours annually, preparing and filing reports on Form N-CEN.[1525] The Commission also continues to estimate that UITs, including separate account UITs, will each spend as much as 9.11 hours annually, preparing and filing reports on Form N-CEN, since a UIT will be required to respond to fewer reporting items.[1526]

We continue to estimate that management investment companies currently spend as much as 15.35 hours preparing and filing each report on Form N-SAR, and note that we generally have sought to simplify and decrease the census-type reporting burdens placed on registrants by current Form N-SAR in adopting Form N-CEN. For example, Form N-CEN, as adopted, will

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[1524] This estimate is based on 2,392 management companies and 721 UITs filing reports on Form N-SAR as of December 31, 2015.

[1525] 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.

[1526] *See id.*

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 continue to believe that reports in XML on 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 continue to believe that the estimated hour burden for filing reports on Form N-CEN should be a reduced burden from the hour burden associated with Form N-SAR.[1527] As such, we continue to estimate that the annual hour burden for management companies will be 13.35 per report on Form N-CEN, down from 15.35 hours per report for Form N-SAR.

We continue to believe that UITs may, however, experience an increase in the hour burden associated with census-type reporting on Form N-CEN because UITs will 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 will be required to provide certain background information and attachments in their reports on Form N-CEN, which they are not currently required to provide in their reports on Form N-SAR. As a result, we continue to estimate an increase in the annual hour burden for UITs from 7.11 hours in the currently approved collection for Form N-SAR to 9.11 hours for Form N-CEN.

In addition, we continue to believe that, in the first year reports on the form are filed, funds may require additional time to prepare and file reports. Therefore, we continue to estimate

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[1527] We note that reports on Form N-CEN will 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 will 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 will 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 per report × 2 reports per year) – 13.35 Form N-CEN burden hours per year = 17.35 hours per year.

that, for the first year, each fund will require 20 additional hours.[1528] Accordingly, we estimate that each management investment company will require 33.35 annual burden hours in the first year[1529] and 13.35 annual burden hours in each subsequent year for preparing and filing reports on Form N-CEN. Furthermore, we estimate that each UIT will require 29.11 annual burden hours in the first year[1530] and 9.11 annual burden hours in each subsequent year for preparing and filing reports on Form N-CEN.

We also continue to estimate (after rounding to the nearest hundredth of an hour) that the average annual hour burden per response for Form N-CEN for the first year will be 32.37 hours[1531] and 12.37 hours in subsequent years.[1532] Amortizing the burden over three years, we estimate that the average annual hour burden per fund per year will be 19.04 hours[1533] and the total aggregate annual hour burden will be 59,272 hours.[1534]

External costs include the cost of goods and services, which with respect to reports on Form N-CEN, will include the costs of registering and maintaining an LEI for the

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[1528] 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.

[1529] This estimate is based on the following calculation: 13.35 hours for filings + 20 additional hours for the first filing = 33.35 hours.

[1530] This estimate is based on the following calculation: 9.11 hours for filings + 20 additional hours for the first filing = 29.11 hours.

[1531] This estimate is based on the following calculation: ((2,392 management investment companies × 33.35 hours per management investment company in the first year) + (721 UITs × 29.11 hours per UIT in the first year)) ÷ 3,113 total funds = 32.37 hours in the first year.

[1532] This estimate is based on the following calculation: ((2,392 management investment companies × 13.35 hours per subsequent year) + (721 UITs × 9.11 hours per subsequent year)) ÷ 3,113 total funds = 12.37 hours per subsequent year.

[1533] This estimate is based on the following calculation: (32.37 hours in first year + (12.37 per subsequent year × 2 years)) ÷ 3 years = 19.04 hours per year.

[1534] This estimate is based on the following calculation: 3,113 funds × 19.04 hours per year = 59,272 hours per year.

registrant/funds.[1535] We estimate an external cost of $219, rather than $220 per fund with respect to the initial filing of a report on Form N-CEN, and we estimate an annual external cost of $119, rather than $120 per fund with respect to subsequent filings, reflecting updates to the industry data figures that were utilized in the Proposing Release.[1536] Accordingly, we estimate the amortized annual external cost per registrants and fund will be $152 per year, rather than $153 per year as proposed.[1537] In sum, we estimate that all applicable funds will incur, in the aggregate, external annual costs of $2,088,176, rather than $1,748,637, reflecting updates to the industry data figures that were utilized in the Proposing Release.[1538]

2. Rescission of Form N-SAR

In connection with our adoption of new Form N-CEN, we are rescinding Form N-SAR in order to eliminate unnecessarily duplicative reporting requirements. This rescission will affect all management investment companies and UITs.

We received no comments on the estimates put forward in our proposal. Thus, as proposed, we estimate that the average annual hour burden per response for Form N-SAR is 15.35 hours for a management investment company and 7.11 hours for a UIT, since a UIT is required to answer fewer items.[1539] We have revised our estimate of the weighted average annual burden per response to about 14.27 hours to reflect updates to the industry data figures

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[1535] *See* 0 and 0 of Form N-CEN (requiring LEI for the registrant and each management company).

[1536] *See supra* footnote 63 (discussing the costs associated with registering and maintaining an LEI).

[1537] This estimate is based on the following calculation: ($219 in the first year + ($119 per subsequent year × 2 years)) ÷ 3 years = $152 per year.

[1538] This estimate is based on the following calculation: $152 per registrant or fund per year × (3,113 investment company registrants + 9,039 mutual funds (which reflects the number of mutual fund series, but excludes money market funds, which would have already obtained LEIs pursuant to the requirements of Form N-MFP) + 1,586 ETFs (excluding 8 UITs that are not ETFs)) = $152 per fund per year × 13,738 registrants and funds = $2,088,176 per year.

[1539] *See* Proposing Release, *supra* footnote 7, at n.724.

that were utilized in the Proposing Release.[1540] We therefore estimate an aggregate annual hour burden of about 78,561 hours.[1541]

Accordingly, we estimate that, in the aggregate, the rescission will eliminate the 78,561 annual burden hours that would be associated with filing Form N-SAR. Additionally, we estimate that there are no external costs associated with preparation of reports on Form N-SAR.

C. Amendments to Regulation S-X

As discussed above, we are adopting certain amendments to Articles 6 and 12 of Regulation S-X. As outlined in section 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 contracts; (2) update the disclosures for other investments and investments in and advances to affiliates, 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.[1542]

[1540] This estimate is based on the following calculation: (15.35 hours per management investment company per response × 2,392 management investment companies × 2 responses per year + 7.11 hours per UIT per response × 721 UITs) ÷ (2,392 management companies × 2 responses per management company per year + 721 UITs × 1 response per management company per year) = 78,561 hours ÷ 5,505 responses per year = ~14.27 hours per response. The numbers of management investment companies and UITs are based on data obtained from the ICI and reports filed by registrants on Form N-SAR. *See supra* footnotes 2 and 1259 and accompanying and following text; *see also* 2016 ICI Fact Book, *supra* footnote 2, at 22, 176.

[1541] This estimate is based on the following calculation: ~14.27 hours per response × (2,392 management companies × 2 responses per management company per year + 721 UITs × 1 response per management company per year) = ~14.27 hours per response × 5,505 responses per year = ~78,561 hours per year.

[1542] 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* section II.C.

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.[1543] 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.[1544] 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.[1545]

Rule 30e-1 also permits, under certain conditions, delivery of a single shareholder report to investors who share an address ("householding").[1546] 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

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[1543] Section 30(e).

[1544] Rule 30e-1.

[1545] *See* Item 27 of Form N-1A; and Item 24 of Form N-2.

[1546] *See* rule 30e-1(f).

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 kept confidential.

Based on staff conversations with fund representatives, we previously estimated 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 previously total estimated annual hour burden of responding to rule 30e-1 was approximately 898,968 hours.[1547]

In the Proposing Release, we estimated that 11,230 management companies would have to comply with these amendments.[1548] In addition, we estimated that the 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 amendments would depend on the extent to which the fund invests in the instruments covered by many of the amendments. We estimated that, on an annual basis, funds generally would incur an additional 9 burden hours in the first year[1549] and an additional 3 burden hours for filings in subsequent years in order to

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[1547] This estimate is based on the following calculation: 84 hours per fund x 10,702 funds (the estimated number of portfolios the last time the rule's information collections were submitted for PRA renewal in 2015) = 898,968 hours.

[1548] *See* Proposing Release, *supra* footnote 7, at n. 777. As noted in the Proposing Release, this estimate included 9,259 mutual funds (including money market funds), 1,403 ETFs (1,411 ETFs – 8 UIT ETFs) and 568 closed-end funds.

[1549] With respect to the amendments to Article 6 of Regulation S-X, we estimated that each fund would spend an average of 5 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

comply with the proposed amendments.[1550] Amortized over three years, we estimated that the average annual hour burden associated with the amendments for Regulation S-X would be 5 hours per fund.[1551] Accordingly, we estimated a total annual average hour burden associated with the amendments would be 56,150.[1552]

We also estimated an annual external cost burden of compliance with the information collection requirements of rule 30e-1, which is currently $31,061 per fund, would not change as a result of the proposed amendments to Regulation S-X.[1553] We further estimated that the total annual external cost burden for rule 30e-1 would be $348,815,030.[1554] External costs included, for example, the costs for funds to prepare, print, and mail the reports.

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provide this disclosure now, but others do not; we recognized 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 estimated 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 estimated 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.

[1550] With respect to the amendments to Article 6 of Regulation S-X, we estimated each fund would require two hours to comply with the requirements in each subsequent year. We likewise estimated that each fund would require one hour to comply with the requirements of the proposed amendments to Article 12 in each subsequent year.

[1551] Proposing Release, *supra* footnote 7, at n. 780. The estimate was based on the following calculation: (9 hours + (3 hours x 2)) / 3 = 5.

[1552] *See id*., at n. 781. The estimate was based on the following calculation: 5 hours x 11,230 management investment companies = 56,150.

[1553] Because the proposed amendments would largely reorganize information currently reported by funds in their financial statements, either voluntarily or because it is required, we did not believe the external costs, such as printing and mailing costs, would increase as a result of the amendments.

[1554] *See* Proposing Release, *supra* footnote 7, at n. 783. This estimate was based on the following calculation: 11,230 funds x $31,061 = $348,815,030. The total annual cost burden of rule 30e-1 was $333,905,750, which reflected the higher estimated number of funds subject to rule 30e-1 at the time of the last renewal for the rule.

We did not receive any comments on the estimated hour and costs burdens relating to our proposed amendments to Regulation S-X. As discussed above, our adoption includes numerous modifications or clarifications from the proposal that address concerns raised by commenters and that are intended, in part, to decrease reporting and implementation burdens relative to the proposal. For example, we are limiting the requirement for nonpublic indexes to require funds to only report the top 50 components of the index or custom basket and any components that represent more than one percent of the notional value of the index or custom basket.[1555] In order to eliminate the unnecessary disclosure of immaterial amounts of non-cash income, we adopted a 5 percent de minimis reporting threshold for reporting non-cash income, such as payment-in-kind interest.[1556] We also eliminated our proposed securities lending disclosures in fund financial statements in favor of disclosures that would be made in a fund's Statement of Additional Information (or, for closed-end funds, reports on Form N-CSR) and in Form N-CEN.[1557] In Article 12 of Regulation S-X, in response to commenter concerns, and as more fully discussed above in section II.C.4, we eliminated proposed disclosure requirements relating to the liquidity of securities and federal income tax basis.[1558] We also eliminated a proposal to require funds to categorize the schedule of securities by type of investment, the related industry, *and* the related country, or geographic region.[1559]

[1555] *See supra* sections 0 and 0.

[1556] *See supra* section 0

[1557] *Id*.

[1558] *See supra* section 0.

[1559] *See supra* section 0.

However, for variable rate securities, we are now requiring funds to provide disclosure of both a description of reference rate and spread and the end of period interest rate, rather than just the reference rate that we proposed, which may add additional burdens on funds.[1560]

For these and other reasons, we believe that our modifications from and clarifications to the proposal will, on a net basis, generally reduce the burden hours and costs associated with implementation of Regulations-X's reporting requirements relative to the proposal. However, although we did not receive any comments specifically addressing the burden estimates for our proposed amendments to Regulation S-X, we recognize that several commenters, although they did not provide quantitative estimates, suggested that implementation of the proposed new reporting requirements, generally would be costly.[1561] Based, in part, on the shifting of the securities lending disclosures to the Statement of Additional Information (or, for closed-end funds, reports on Form N-CSR) and Form N-CEN, as well as the other modification discussed above, we estimate that funds will incur a reduction of 2 burden hours in the first year and a reduction of .5 hours for filings in subsequent years from our proposed estimates.

The Commission has also modified the estimated increase in annual burden hours and total time costs that will result from the amendments based on updated industry data. We have revised our estimate of the number of management companies that will have to comply with the amendments to Regulation S-X upward from 11,230 management companies to 11,859 management companies to reflect updates to the industry data figures that were utilized in the

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[1560] *See id.*

[1561] *See, e.g.*, Simpson Thacher Comment Letter; and Fidelity Comment Letter.

Proposing Release.[1562] The Commission now estimates that, on an annual basis, funds generally will incur an additional 7 burden hours in the first year and an additional 2.5 burden hours for filings in subsequent years in order to comply with the proposed amendments. Amortized over three years, the average aggregate annual hour burden associated with the amendments for Regulation S-X will be 4 hours per fund.[1563] We therefore estimate an average total annual hour burden associated with the amendments of 47,436.[1564]

We continue to estimate an annual external cost burden of compliance with the information collection requirements of rule 30e-1, which is currently $31,061 per fund, will not change as a result of the proposed amendments to Regulation S-X.[1565] We further estimate that the total annual external cost burden for rule 30e-1 will be $368,352,399.[1566]

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.[1567] 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

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[1562] This estimate included 9,520 mutual funds (including money market funds), 1,589 ETFs (1,594, ETFs – 5 UIT ETFs) and 750 closed-end funds and was based on internal SEC data as well as ICI statistics as of December 31, 2015, *available at* http://www.ici.org/research/stats.

[1563] The estimate is based on the following calculation: (7 hours + (2.5 hours x 2)) / 3 = 4.

[1564] The estimate is based on the following calculation: 4 hours x 11,859 management investment companies = 47,436

[1565] We continue to believe that amendments will largely reorganize information currently reported by funds in their financial statements, either voluntarily or because it is required and will therefore not result in an increase of external costs, such as printing and mailing costs.

[1566] This estimate is based on the following calculation: 11,859 funds x $31,061 = $368,352,399.

[1567] Rule 30e-2.

of the underlying fund for the same fiscal period.[1568] 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.[1569]

Compliance with the disclosure requirements of rule 30e-2 is mandatory. Responses to the disclosure requirements are not kept confidential.

As noted in the Proposing Release, the Commission previously estimates that the annual burden associated with rule 30e-2, including the householding requirements, was 121 hours per respondent. The Commission further estimated the total annual hour burden was approximately 91,960 hours.[1570]

As discussed above, we are adopting certain amendments to Articles 6 and 12 of Regulation S-X that will increase the time spent preparing, reviewing and certifying reports.[1571] The extent to which a UIT's burden increases as a result of the adopted amendments will depend on the extent to which an underlying fund invests in the instruments covered by many of the amendments.

[1568] 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.

[1569] *See* rule 30e-2(b); *see also supra* footnote 1546 and accompanying text.

[1570] This estimate is based on the following calculations: 700 UITs (the estimated number of UITs the last time the rule's information collections were submitted for PRA renewal in 2015) x 121 hours per UIT = 84,700.

[1571] As discussed above, the amendments will: (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 contracts; (2) update the disclosures for other investments and investments in and advances to affiliates, 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. In addition, our amendments will 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.

In the Proposing Release, we estimated that there were 727 UITs that may be subject to the proposed amendments.[1572] We also estimated that, on an annual basis, UITs generally would incur an additional 9 burden hours in the first year and an additional 3 burden hours for filings in subsequent years in order to comply with the proposed amendments. Amortized over three years, we estimated that the average annual hour burden associated with the proposed amendments would be 5 hours per fund. [1573] Accordingly, we estimated that the total average annual hour burden associated with the proposed amendments to Regulation S-X would be 3,635 hours.[1574]

In addition, we estimated that the annual external cost burden of compliance with the information collection requirements of rule 30e-2, which are currently $20,000 per respondent, would not change as a result of the proposed amendments to Regulation S-X.[1575] We further estimated that the total annual external cost burden for rule 30e-2 would be $14,540,000.[1576] External costs include, for example, the costs for the funds to prepare, print, and mail the reports.

We did not receive any comments on the estimated hour and costs burdens. For the reasons discussed above, we now estimate that funds will incur a reduction of 2 burden hours in the first year and a reduction of .5 hours for filings in subsequent years from our proposed costs. The Commission has also modified the estimated increase in annual burden hours and total time costs that will result from the amendments based on updated industry data. We have revised our

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[1572] *See* Proposing Release, *supra* footnote 7, at n. 789. This estimate was based on the number of UITs that filed Form N-SAR with the Commission as of December 31, 2014.

[1573] The estimate was based on the following calculation: (9 hours + (3 hours x 2)) / 3 = 5.

[1574] The estimate was based on the following calculation: 5 hours x 727 UITs = 3,635.

[1575] *See supra* footnote 1553.

[1576] 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* footnote 1570.

estimate of the number of UITs that will have to comply with the amendments to Regulation S-X downward from 727 UITs to 721 UITs to reflect updates to the industry data figures that were utilized in the Proposing.[1577] For the reasons discussed above, we now estimate that, on an annual basis, UITs generally will incur an additional 7 burden hours in the first year[1578] and an additional 2.5 burden hours for filings in subsequent years in order to comply with the amendments to Regulation S-X.[1579] Amortized over three years, we now estimate that the average annual hour burden associated with the amendments will be 4 hours per fund. [1580] We therefore estimate a total average annual hour burden associated with the amendments to Regulation S-X will be 2,884 hours.[1581]

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 amendments to Regulation S-X.[1582] We further estimate that the total annual external cost burden for rule 30e-2 will be $14,420,000.[1583]

[1577] This estimate is based on the number of UITs that filed Form N-SAR with the Commission as of December 31, 2015.

[1578] *See supra* footnotes 1562-1563 and accompanying text.

[1579] *See id*.

[1580] The estimate is based on the following calculation: (7 hours + (2.5 hours x 2)) / 3 = 4.

[1581] The estimate is based on the following calculation: 4 hours x 721 UITs = 2,884.

[1582] *See supra* footnote 1553.

[1583] This estimate is based on the following calculation: 721 UITs x $20,000 = $14,420,000. 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.

D. Amendments to Registration Statement Forms

As discussed above, we are amending Forms N-1A, N-2, N-3, N-4, and N-6.[1584] We are adopting amendments to Forms N-1A and N-3 to require certain disclosures in fund Statements of Additional Information regarding securities lending activities.[1585] We are also amending 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 Form N-CEN.[1586]

Form N-1A is the form used by open-end management investment companies to register under the Investment Company Act and/or register their securities under the Securities Act. Form N-2 is the form used by closed-end management investment companies to register under the Investment Company act and register their securities under the Securities Act. Form N-3 is the form used by separate accounts offering variable annuity contracts which are organized as management investment companies to register under the Investment Company Act and/or register their securities under the Securities Act. Form N-4 is the form used by insurance company separate accounts organized as unit investment trusts that offer variable annuity contracts to register under the Investment Company Act and/or register their securities under the Securities Act. Form N-6 is the form used by insurance company separate accounts organized as unit investment trusts that offer variable life insurance policies to register under the Investment Company Act and/or register their securities under the Securities Act. Compliance with the

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[1584] *See supra* section 0; footnotes 807–809 and accompanying text.

[1585] *See* Item 19(i) of Form N-1A; Item 21(j) of Form N-3; *see also supra* section 0. We proposed similar requirements be included in fund financial statements as part of the proposed amendments to Regulation S-X. *See* proposed rule 6-03(m) of Regulation S-X; Proposing Release, *supra* footnote 7, at 33624.

[1586] *See* footnotes 807–809 and accompanying text.

disclosure requirements of Forms N-1A, N-2, N-3, N-4, and N-6 is mandatory. Responses to the disclosure requirements are not kept confidential.

Currently, we estimate the following total hour burden for each of the relevant forms:

FORM	TOTAL BURDEN HOURS
N-1A	1,579,974
N-2	86,533
N-3	3,104
N-4	343,117
N-6	85,269

In the Proposing Release, we estimated that 11,957 funds would have to comply with the proposed amendments to Regulation S-X, including, among other things, the proposed new disclosure in the notes to financial statements relating to a fund's securities lending activities.[1587] In the Proposing Release, we estimated that the total hour burden for each respective form would not change as a result of the proposed amendments concerning books and records disclosures.[1588] We estimated, however, that the amendments to Regulation S-X—including the new required disclosures in the notes to the financial statements concerning the fund's securities lending activities, but also a number of other amendments—would result in funds incurring an additional 9 burden hours in the first year and an additional 3 burden hours for filings in subsequent years.[1589] Amortized over three years, the average additional annual hour burden was estimated

[1587] We estimated in the Proposing Release that 11,230 management companies would be required to comply with the amendments. Proposing Release, *supra* footnote 7, at 33676. We also estimated that 727 UITs may be subject to the proposed amendments. Proposing Release, *supra* footnote 7, at 33677. 11,230 management companies + 727 UITs = 11,957.

[1588] Proposing Release, *supra* footnote 7, at 33681.

[1589] Proposing Release, *supra* footnote 7, at 33676–77.

to be 5 hours per fund.[1590] Accordingly, we estimated that the total annual average hour burden associated with the amendments would be 59,785 hours.[1591] We did not receive any comments on the estimated hour burden.

We continue to estimate no change in burden hours as a result of the books and records disclosures. However, we now estimate that those forms—*viz.*, Forms N-1A and N-3—that include the new disclosure requirements concerning securities lending activities would impose part, but not all, of the additional hour burden previously estimated for Regulation S-X as funds may need to collect, collate, tabulate, present, and review the information in order to prepare the required Statement of Additional Information disclosures. We estimate that 9,502 and 16 funds per year could file registration statements or amendments to registration statements on Forms N-1A and N-3, respectively. We estimate that funds will incur an additional 2 burden hours in the first year and an additional 0.5 hours for filings in subsequent years. Amortized over three years, the average additional annual hour burden will therefore be 1 hour per fund.[1592] Accordingly, we estimate that the total annual average hour burden associated with the amendments to Forms N-1A and N-3 is, respectively, 9,502,[1593] and 16 hours.[1594] For Forms N-4 and N-6, to which the securities lending activity disclosure requirement amendments do not apply, we continue to estimate total annual hour burden of 343,117 hours and 85,269 hours, respectively.

[1590] 9 hours in first year + (3 hours per year thereafter × 2 years) = 9 hours + 6 hours = 15 hours total. 15 hours total ÷ 3 years = 5 hours per year.

[1591] 11,957 funds × 5 hours per fund = 59,785.

[1592] 2 hours in first year + (0.5 hours per year thereafter × 2 years) = 2 hours + 1 hour = 3 hours total. 3 hours total ÷ 3 years = 1 hour per year.

[1593] 1 hour per fund × 9,502 funds per year = 9,502 hours per year.

[1594] 1 hour per fund × 16 funds per year = 16 hours per year.

In the Proposing Release, for both the books and records amendments and the Regulation S-X requirement, of which the securities lending requirements were a part, we estimated that there would be no changes to the annual external cost burden per fund as a result of the amendments, and accordingly estimated no change to the current estimated total external cost burden associated with the forms.[1595] We did not receive any comments on the estimated external cost burden. We therefore continue to estimate no change to the external cost burden as a result of the amendments, and so we continue to estimate the total cost burden for each of the respective forms as follows:

FORM	TOTAL COST BURDEN
N-1A	$124,820,197
N-2	$5,488,048
N-3	$205,180
N-4	$36,308,889
N-6	$5,316,892

E. Amendments to Form N-CSR

As previously discussed above, we are adopting, as proposed, the rescission of Form N-Q.[1596] In connection with the rescission of Form N-Q, we also are adopting, as proposed, amendments to Form N-CSR, the reporting form used by management companies to file certified shareholder reports under the Investment Company Act and the Exchange Act.[1597] 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

[1595] Proposing Release, *supra* footnote 7, at 33677, 33681.

[1596] *See supra* section III.B.

[1597] *See* Proposing Release, *supra* footnote 7, at section V.E.

Commission, and (2) disclosure controls and procedures and internal control over financial reporting.[1598] The rescission of Form N-Q adopted today eliminates these certifications.

Form N-CSR requires similar certification with respect to the fund's second and fourth fiscal quarters. As a result of the rescission of Form N-Q adopted today, we are also adopting amendments to 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.[1599] 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 will cover the first and second fiscal quarters and third and fourth fiscal quarters, respectively, will fill the gap in certification coverage that would otherwise occur once the rescission of Form N-Q is effective. As proposed, compliance with the amended certification requirements will be mandatory and responses are not kept confidential.

In addition, as discussed above, we are moving the change in independent public accountant attachment proposed on Form N-CEN to Form N-CSR so that an accountant's letter regarding a change in accountant will become available to the public semi-annually rather than annually.[1600] We are also adopting amendments to require closed-end funds to report on Form N-CSR certain disclosures regarding securities lending activities.[1601]

[1598] *See supra* footnote 521 and accompanying text.

[1599] *See* Item 11(b) of Form N-CSR; paragraph 5(b) of certification exhibit of Item 11(a)(2) of Form N-CSR.

[1600] *See supra* section II.D.4.b.

[1601] *See* Item 12 of Form N-CSR; *see also supra* footnote 1181 and accompanying text.

In the Proposing Release, we estimated that the current annual burden associated with Form N-CSR is 14.42 hours per fund[1602] and that the current total annual time burden for Form N-CSR is 177,799 hours.[1603] We noted 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 to the certification requirements of Form N-CSR and that funds likely already have policies and procedures in place to assist officers in their certifications of this information. Accordingly, we estimated that the proposed amendments to the certification requirements of Form N-CSR would not change the annual hour burden associated with Form N-CSR and, thus, we continued 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 estimated 161,937 hours.[1604] We noted that this decrease in the current total annual hour burden was a result of the decrease in the number of funds estimated to file Form N-CSR.

In addition, in the Proposing Release, we also estimated that the current annual cost of outside services associated with Form N-CSR is approximately $129 per fund.[1605] We noted our belief that external costs would include the cost of goods and services purchased to prepare and update filings on Form N-CSR. We also expressed our belief that those costs would not change

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[1602] This estimate accounted for two filings per year. In addition, we noted that the estimate did not separately account for the certifications on Form N-CSR.

[1603] This estimate was 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)).

[1604] This estimate was based on the following calculation: 11,230 funds x 14.42 hours = 161,937. *See supra* footnote 1548 (calculating the estimate for 11,230 funds).

[1605] We estimated that the external costs associated with Form N-CSR would 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.

as a result of the proposed amendments to the certification requirements of Form N-CSR and, thus, continued to estimate a current external cost burden of $129 per fund to file Form N-CSR. In the Proposing Release, we further estimated that the total annual external cost burden for Form N-CSR would be $2,897,340.[1606]

We did not receive any comments on the estimated hour and cost burdens associated with our proposed amendments to the certification requirements of Form N-CSR. As discussed above, we are adopting amendments to modify Form N-CSR so that an accountant's letter regarding a change in accountant will become available to the public semi-annually pursuant to an exhibit filing on Form N-CSR rather than annually as an attachment to Form N-CEN, as proposed.[1607] We believe that this modification from the proposal will increase the hour burden associated with Form N-CSR by one-tenth of an hour[1608] with an additional internal cost burden of $32.40 per fund.[1609] In addition, as noted above, we are adopting an amendment to require closed-end funds include in their annual reports on Form N-CSR information concerning securities lending activities. We estimate that this amendment will increase the hour burden associated with Form N-CSR for closed-end funds by an additional 2 burden hours with an

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[1606] This estimate was based on the following calculation: 11,230 funds x $129 = $1,448,670; $1,448,670 x 2 times per year = $2,897,340. We noted that the current total annual cost burden of Form N-CSR at the time of the Proposing Release was $3,189,771, which reflected the higher estimated number of filers for Form N-CSR at the time of the last renewal for the form. *See supra* footnote 1603.

[1607] *See supra* section III.B.3.

[1608] Paralleling this modification, we believe that the modification to move the change in independent public accountant exhibit from Form N-CEN as proposed to Form N-CSR will also reduce the hour burden requirement associated with Form N-CEN by one-tenth of an hour. *See supra* section IV.B.1.

[1609] This estimate is based on the following calculation: 0.10 hour x $324 (blended hourly rate for compliance attorney ($340) and senior programmer ($308) = $32.40.

additional internal cost burden of $648 per fund in the first year,[1610] and an additional 0.5 hours with an additional internal cost burden of $162 per fund for filings in subsequent years.[1611] We have modified the estimated increase in annual burden hours and total time costs that will result from amendments to Form N-CSR adopted today in light of these modifications and updated data on industry earnings estimates.

For purposes of the PRA analysis, we estimate that the annual burden associated with Form N-CSR is 14.52 hours per fund.[1612] For closed-end funds, we estimate that the annual burden associated with Form N-CSR is 16.52 hours per fund in the first year and 15.02 for filings in subsequent years.[1613] Amortized over three years, the average additional annual hour burden will therefore be 1 hour per closed-end fund.[1614] Accordingly, we estimate that, for closed-end funds, the total annual average hour burden associated with the amendments to Form N-CSR related to securities lending activities is 750 hours.[1615] We have revised our estimate of the total annual hour burden downward from 177,799 hours to 172,899 hours to reflect updates to the industry data figures that were utilized in the Proposing Release as well as the increase in

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[1610] This estimate is based on the following calculation: 2 hours x $324 (blended hourly rate for compliance attorney ($340) and senior programmer ($308) = $648.

[1611] This estimate is based on the following calculation: 0.5 hour x $324 (blended hourly rate for compliance attorney ($340) and senior programmer ($308) = $162.

[1612] This estimate is based on the following calculation: 14.52 = 14.42 + 0.10. This estimate accounts for two filings per year. We note that this estimate does not separately account for the certifications on Form N-CSR or the securities lending activities information annual reporting requirement for closed-end funds on Form N-CSR.

[1613] This estimate is based on the following calculation: 16.52 = 14.52 + 2. 15.02 = 14.52 + 0.5.

[1614] This estimate is based on the following calculation: 2 hours in first year + (0.5 hours per year thereafter × 2 years) = 2 hours + 1 hour = 3 hours total. 3 hours total ÷ 3 years = 1 hour per year.

[1615] This estimate is based on the following calculation: 1 hour per fund × 750 closed-end funds per year = 750 hours per year.

the hour burdens resulting from the amendments.[1616] This decrease in the total annual hour burden is a result of the decrease in the number of funds estimated to file Form N-CSR, from our estimate of 12,330 funds in the Proposing Release to our current estimate of 11,856 funds.

In addition, as stated in the Proposing Release, we continue to estimate that the annual cost of outside services associated with Form N-CSR is approximately $129 per fund. [1617] Based on updated statistics regarding the number of funds, we estimate that the total annual external cost burden for Form N-CSR will be $3,058,848, rather than $2,897,340 as we estimated in the Proposing Release.[1618]

V. FINAL REGULATORY FLEXIBILITY ANALYSIS

This Final Regulatory Flexibility Analysis ("FRFA") has been prepared in accordance with section 4(a) of the Regulatory Flexibility Act ("RFA").[1619] It relates to new Form N-PORT and new Form N-CEN and amendments to Form N-CSR, amendments to Regulation S-X, the rescission of Forms N-Q and N-SAR, and amendments to Forms N-1A, N-2, N-3, N-4, and N-6. An Initial Regulatory Flexibility Analysis ("IRFA") was prepared in accordance with the RFA and included in the Proposing Release.[1620]

[1616] This estimate is based on the following calculation: 172,899 = (750 hours (closed-end funds)) + (172,149 hours (14.52 hours x (1,594 exchange-traded funds – eight organized as UITs + 750 closed-end funds + 481 money market funds + 9,039 other mutual funds))). *See supra* footnote 1259 and accompanying and following text.

[1617] We estimate that the external costs associated with Form N-CSR will 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.

[1618] This estimate is based on the following calculation: 11,856 funds x $129 = $1,529,424; $1,529,424 x 2 times per year = $3,058,848. *See supra* footnote 1603.

[1619] 5 U.S.C. 603.

[1620] *See* Proposing Release, *supra* footnote 7, at section VI.

A. Need for and Objectives of the Forms and Form Amendments and Rules and Rule Amendments

The Commission collects certain information about the funds that it regulates. The Commission is adopting new rules, rule amendments, and new forms and form amendments that will 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 these new rules, rule amendments, and new forms and form amendments will improve the information that funds report to their shareholders and the Commission. In addition, the new forms will require reports be filed in a structured data format (XML) to allow for easier collection 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 will be improved by requiring enhanced information from funds.

B. Significant Issues Raised by Public Comments

In the Proposing Release, we requested comment on every aspect of the IRFA, including the number of small entities that would be affected by the proposed amendments, the existence or nature of the potential impact of the proposals on small entities discussed in the analysis and how to quantify the impact of the proposed rules.

One commenter noted that the rulemaking will place an "undue work and financial burden" on small closed-end funds.[1621] The commenter also noted that a closed-end fund that is not listed on an exchange, a small number of assets under management, and limited holdings should be required to file reports on Form N-PORT quarterly, as opposed to monthly.[1622] Commenters also generally noted the high cost of the rulemaking.[1623] Other commenters generally requested more time in order to comply with the new forms, rules, and rule amendments.[1624]

As we noted above,[1625] we believe that, in order to ensure that the Commission and its staff receive timely information, it is appropriate to require that funds file reports on Form N-PORT within 30 days of month-end. Although reports on Form N-MFP are required to be filed within 5 days of month end, we recognize that preparing reports on Form N-PORT will initially require a significant effort by funds.[1626] Therefore, we have determined to require a 30-day filing period for reports on Form N-PORT in order to balance the Commission's need for timely information with the operational burdens of reporting. Moreover, lag times of more than 30 days would make monthly reporting impractical, as reports would overlap with preparation time.[1627]

[1621] *See* Carol Singer Comment Letter.

[1622] *Id*.; *see also* Schnase Comment Letter (noting that monthly reporting on Form N-PORT would be particularly burdensome on smaller funds).

[1623] *See, e.g.*, Schnase Comment Letter ("I am not convinced this is a cost better or more efficiently borne by the fund rather than the data users and sellers, particularly for smaller funds already struggling to meet costly filing requirements."); Wahh Comment Letter; Carol Singer Comment Letter.

[1624] *See, e.g.*, Simpson Thacher Comment Letter ("With respect to the Commission's proposed compliance dates for the new reporting requirements, we are concerned that the timeline outlined in the Release is too aggressive for smaller investment company complexes.").

[1625] *See supra* section 0.

[1626] *See supra* section III.B.3.

[1627] Dreyfus Comment Letter (advocating for bi-monthly or quarterly reporting, with 45-60 days to file reports on Form N-PORT).

We also note that several commenters noted that reporting on the same basis used to calculate NAV (generally a T+1 basis), which the Form now explicitly requires, as opposed to a T+0 basis, which is used for financial reporting, will reduce the estimated time to gather the information.[1628] As a result, we are adopting our requirement for reports on Form N-PORT to be filed with the Commission within 30 days of month-end.[1629] Moreover, given the nature and frequency of filings on Form N-PORT, we are adopting a delayed compliance period for small entities that will file reports on Form N-PORT.[1630] Specifically, 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), we are providing for an extra 12 months (or 30 months after the effective date) to comply with the new reporting requirements.

Apart from commenter concerns discussed above regarding the costs and financial burdens associated with the overall rulemaking, commenters did not raise specific concerns about the impact of new Form N-CEN or the rescission of Form N-SAR on small entities. One commenter expressed the belief that annual filings on Form N-CEN would be appropriate but that some of the requested information on the form probably would not be applicable to small closed-end funds with certain characteristics.[1631] As discussed above, Form N-CEN reporting

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[1628] *See* Schwab Comment Letter (reporting that converting from T+1 to T+0 accounting would add approximately 6-10 days to the process of compiling data for Form N-PORT). While commenters acknowledged that reporting holdings on a T+1 basis would save time vis a vis compiling data for month-end reporting, they still noted that they would need more than 30 days after month-end to file reports on Form N-PORT. *See* Invesco Comment Letter; *but see* SIFMA Comment Letter I (requesting that funds be given the option to report on either a T+0 or T+1 basis).

[1629] *See* General Instruction A of proposed Form N-PORT.

[1630] *See supra* section 0.

[1631] *See* Carol Singer Comment Letter.

requirements depend on the type of registrant filing the report.[1632] For example, all funds, including small entities, will be required to complete Parts A, B, and G of the form (as applicable), and all management companies, except for SBICs, will be required to complete Part C. On the other hand, only closed-end funds and SBICs will be required to complete Part D and only ETFs and UITs will be required to complete Parts E and F, respectively. Thus, certain reporting requirements on Form N-CEN may or may not be applicable to small entities depending on the type of registrant.

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.[1633] Commission staff estimates that, as of December 2015, approximately 129 registered investment companies, including 117 open and closed-end funds (including one SBIC) and 12 UITs are small entities. The Commission staff further estimates that, as of December 2015, approximately 34 BDCs are small entities. Since the new forms and form amendments and new rules and rule amendments, pertain to all registered funds (subject to the limitations discussed in section V.D, below), all entities, including small entities, will be subject to the adopted rules. Specific reporting, recordkeeping, and other compliance requirements, in addition to the estimated number of small entities subject to the form and form amendments and rule and rule amendments, are discussed below.

[1632] *See supra* section II.D.2.

[1633] 17 CFR 270.0-10(a).

D. Projected Reporting, Recordkeeping, and Other Compliance Requirements

The 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 adopting new Form N-PORT on which funds, other than MMFs, UITs, and SBICs, will be required to report portfolio holdings information and information related to liquidity, derivatives, securities lending, purchases and redemptions, and counterparty exposure each month. Funds will be required to file reports on 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 will 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 will include small entities, we are providing an extra 12 months (or 30 months after the effective date) to comply with the new Form N-PORT reporting requirements.

We received no comments on the IRFA analysis of new Form N-PORT or the estimated costs discussed above in sections III.B.3 and IV.A.1. Therefore, based on our experience with other structured data filings, we estimate that funds will 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 Form N-PORT on behalf of the fund. We estimate that approximately 117 open and closed-end funds (other than money market funds

and SBICs), are small entities that will file, on a monthly basis, a complete report on 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 will cost $56,682 for each fund, including small entities, in its first year of reporting and $47,465 per year for each subsequent year.[1634] 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 will cost $55,492 for each fund, including small entities, in its first year of reporting, and $39,214 per year for each subsequent year.[1635] We received no comments on the IRFA analysis of Form N-PORT, but discuss in detail comments received on our cost estimates in sections III.B.3 and IV.A.1 above.

2. Rescission of Form N-Q

Our proposal will rescind Form N-Q in order to eliminate unnecessarily duplicative reporting requirements. The rescission of Form N-Q will affect all management investment companies required to file reports on the form. We expect that approximately 117 open and closed-end funds are small entities that will be affected by the rescission of Form N-Q.

We received no comments on the IRFA analysis of the rescission of Form N-Q or the projected costs savings from rescinding Form N-Q. As discussed above, we estimate that the rescission of Form N-Q will save $6,804 per year for each fund, including small entities.[1636]

[1634] *See supra* footnotes 1300-1301 and accompanying text.

[1635] *See supra* footnotes 1302-1303 and accompanying text.

[1636] The estimated cost is based upon the following calculations: ($6,804= 21 hours/fund x $324/hour compensation for professionals commonly used in preparation of Form N-Q filings.) $324 = $308 per hour for Senior Programmers + $340 per hour for compliance attorneys / 2), as we believe these employees would commonly be responsible for completing reports on Form N-Q.

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.[1637] 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 replacing Form N-SAR with new Form N-CEN. This new form will streamline and update the required data items to reflect current Commission staff needs. Where possible, we have endeavored to exclude items from Form N-CEN that are disclosed or reported pursuant to other Commission forms, or are otherwise available; however, in some limited cases, we are collecting information on Form N-CEN that may be similarly disclosed or reported elsewhere because we believe it will be useful to have such information in a structured format to facilitate comparisons across funds. We also believe this format will 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 requiring that funds file reports on Form N-CEN annually, opposed to semi-annually, which is currently required for Form N-SAR (except UITs, which currently must file reports annually).

We received no comments on the IRFA analysis of Form N-CEN, but discuss in detail comments received on our cost estimates in sections III.D.2, III.D.3, and IV.B.1, above.

[1637] *See* rule 30b1-1 and rule 30a-1.

Therefore, we estimate that approximately 129 registered investment companies, including 117 open and closed-end funds (including one SBIC) and 12 UITs, are small entities that will 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 will increase because UITs will 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 Commission estimates that Form N-CEN filers, including small entities, would incur additional costs of $14.6 million each year and $20.2 million in one-time costs as a result of the form's reporting requirements.[1638]

4. Rescission of Form N-SAR

Our proposal will rescind Form N-SAR in order to eliminate unnecessarily duplicative reporting requirements. We estimate that approximately 129 registered investment companies that are small entities, including 117 open and closed-end funds (including one SBIC) and 12 UITs would be affected by the rescission of Form N-SAR.

As discussed above, the Commission estimates that rescinding Form N-SAR will save current Form N-SAR filers, including small entities, about $25.5 million per year.[1639] We received no comments on the IRFA analysis of the rescission of Form N-SAR or the projected expense savings from rescinding Form N-SAR.

[1638] *See supra* section 0. However, as discussed below, the annual costs of reporting on Form N-CEN would be offset by the rescission of Form N-SAR. *See id.*

[1639] *See supra* section 0. However, as discussed above, the annual savings from the rescission of Form N-SAR would be partially offset by the reporting requirements of Form N-CEN. *See id.*

5. Regulation S-X Amendments

The Commission is also amending 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 adopting 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 will benefit from our amendments because increased disclosure and standardization of fund holdings will 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 will benefit the industry, while any additional burdens will be reduced since similar disclosures will be required on Form N-PORT.

We received no comments on the IRFA analysis of the Regulation S-X amendments, which included the proposed securities lending activity disclosures, or on the estimated costs discussed above in section III.C.3

We therefore expect that approximately 129 registered investment companies, including 117 open and closed-end funds (including one SBIC) and 12 UITs and, approximately 34 BDCs, are small entities that will be affected by the amendments to Regulation S-X. As discussed above, we estimate that amending Regulation S-X will cost $1,911 for each fund, including

small entities, in its first year of reporting, and $683 per year for each subsequent year.[1640] As discussed above, we further estimate that amending Regulation S-X will cost $1,911 for each UIT, including small entities, in its first year of reporting, and $683 per year for each subsequent year.[1641]

6. Amendments to Registration Statement Forms

We are amending 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.[1642] 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 will increase our efficiency in preparing for exams as well as our ability to identify current industry trends and practices and, therefore, are requiring that it be reported on Form N-CEN. We are also adopting amendments to Forms N-1A and N-3 to require certain disclosures in fund Statements of Additional Information regarding securities lending activities.[1643] We believe that investors and others will benefit from the additional transparency into the economic effects of fund securities lending activities that these requirements will yield.

As discussed above, in sections III.E and IV.D, we did not receive any comments on the estimated hour and cost burdens or quantitatively estimated economic benefits or costs associated with our amendments to fund registration statement forms, or on their IRFA analysis or our IRFA analysis of securities lending disclosures. We expect that approximately 90 registered investment companies, including 78 open-end funds and 12 UITs, and approximately

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[1640] *See supra* section 0.

[1641] *See id.*

[1642] *See supra* footnotes 807–809 and accompanying text.

[1643] *See supra* section 0.

34 BDCs, are small entities that would be required to file registration statements on the amended forms. As discussed above, the Commission estimates that Form N-1A and N-3 filers, including small entities, would incur additional costs of $1.3 million each year and $3.9 million in one-time costs as a result of the amendments to those forms.[1644]

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 expanding the SOX certification for Form N-CSR to six months to maintain coverage for the entire fiscal year. As discussed above, in section IV.E, we did not receive any comments on the estimated hour and cost burdens associated with our proposed amendments to the certification requirements of Form N-CSR. In addition, we also are moving the change in independent public accountant attachment proposed on Form N-CEN to Form N-CSR so that an accountant's letter regarding a change in accountant will become available to the public semi-annually rather than annually.[1645]

As discussed above, in sections III.B.3 and IV.E, we did not receive any comments on the estimated hour and cost burdens associated with our amendments to Form N-CSR or its IRFA analysis.

Therefore, we expect that approximately 129 registered investment companies, including 78 open-end funds, 39 closed-end funds (including one SBIC) and 12 UITs, are small entities that will be affected by the amendments to Form N-CSR. As discussed above, the Commission

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[1644] *See supra* section 0.

[1645] *See supra* section II.D.4.b.

does not believe that the costs associated with reporting on Form N-CSR will change for funds, including small entities, as a result of the amendments to the certification requirements associated with Form N-CSR adopted today.[1646] We do estimate that the annual burden associated with filing reports on Form N-CSR will increase from 14.42 to 14.52 per registrant in light of moving the change in independent public accountant attachment proposed on Form N-CEN to Form N-CSR.[1647] In addition, we estimate that the amendment to require closed-end funds to report on Form N-CSR certain disclosures regarding securities lending activities will increase the hour burden associated with Form N-CSR for closed-end funds by an additional 2 burden hours in the first year and an addition 0.5 hours for filings in subsequent years.[1648]

E. Agency Action to Minimize Effect on Small Entities

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 forms and form amendments and rules and rule 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

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[1646] *See supra* section III.B.3.

[1647] *See supra* footnote 1612 and accompanying text.

[1648] *See supra* footnote section IV.E.

consistent with the Commission's goal of industry oversight and investor protection. However, as discussed above, we are adopting a delayed compliance period for small entities that will file reports on Form N-PORT.

VI. STATUTORY AUTHORITY

We are adopting 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.

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 Part 232

Administrative practice and procedure, Incorporation by reference, Reporting and recordkeeping requirements, Securities.

17 CFR Part 239

Investment companies, 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 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. Effective June 1, 2018, §200.800 in paragraph (b) is amended 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.

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(b) * * *

Information collection requirement	17 CFR part or section where identified and described	Current OMB control No.
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Form N-CEN	274.101	3235-0729
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Form N-PORT	274.150	3235-0730
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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. Effective [insert date 60 days after date of publication in the Federal Register], 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. Effective [insert date 60 days after date of publication in the Federal Register], 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, other than issuers of face-amount certificates, and business development companies, 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 (15 U.S.C. 77a et seq.) (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.* (1) 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.

(2) State the following amounts based on cost for Federal income tax purposes:

(i) Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost;

(ii) The aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value;

(iii) The net unrealized appreciation or depreciation; and

(iv) The aggregate cost of investments for Federal income tax purposes.

(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 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 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.

6. Effective [insert date 60 days after date of publication in the Federal Register], 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. Effective [insert date 60 days after date of publication in the Federal Register], 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. Effective [insert date 60 days after date of publication in the Federal Register], revise §210.6-07 to read as follows:

§210.6-07 Statements of operations.

Statements of operations filed by registered investment companies, other than issuers of face-amount certificates, subject to the special provisions of §210.6-08, and business development companies, shall comply with the following provisions:

STATEMENTS OF OPERATIONS

1. *Investment income.* State separately income from: (a) dividends; (b) interest on securities; and (c) other income. Any other category of income which exceeds five percent of the total shown under this caption (e.g. income from non-cash dividends, income from payment-in-kind interest) shall be stated separately. 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 income from 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.

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. Effective [insert date 60 days after date of publication in the Federal Register], revise §210.6-10 to read as follows:

§210.6-10 What schedules are to be filed.

(a) When information is required in schedules for both the person and its subsidiaries consolidated, it may be presented in the form of a single schedule, provided that items pertaining

to the registrant are separately shown and that such single schedule affords a properly summarized presentation of the facts.

(b) The schedules shall be examined by an independent accountant if the related financial statements are so examined.

(c) *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.

(d) *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.

(e) *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. Effective [insert date 60 days after date of publication in the Federal Register], 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]

[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); and (ii) the related industry, 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 and: (1) the end of period interest rate or (2) disclose the end of period reference rate for each reference rate described in the Schedule in a note to the Schedule. 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. (§§210.6-04.19 or 210.6-05.4).

[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 value was determined using significant unobservable inputs.

[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. Effective [insert date 60 days after date of publication in the Federal Register], 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]

[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, 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 and: (1) the end of period interest rate or (2) disclose the end of period reference rate for each reference rate described in the Schedule in a note to the Schedule. For securities with payment in kind income, disclose the rate paid in kind.

[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 value was determined using significant unobservable inputs.

12. Effective [insert date 60 days after date of publication in the Federal Register], 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]	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); and (b) the related industry, 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 and: (1) the end of period interest rate or (2) disclose the end of period reference rate for each reference rate described in the Schedule in a note to the Schedule. 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 value was determined using significant unobservable inputs.

[13]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.

§210.12-12C [Removed and Reserved].

13. Effective [insert date 60 days after date of publication in the Federal Register], remove and reserve §210.12-12C.

14. Effective [insert date 60 days after date of publication in the Federal Register], 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]

[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, provide a description of the index or custom basket and list separately: (i) the 50 largest components in the index or custom basket and (ii) any other components where the notional value for that components exceeds 1% of the notional value of the index or custom 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 or centrally cleared 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 value was determined using significant unobservable inputs.

[8]Column G shall be totaled and shall agree with the correlative amount shown on the related balance sheet.

15. Effective [insert date 60 days after date of publication in the Federal Register], 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, 3, 4, 5]	Number of contracts	Expiration date	Notional amount[6]	Value	Unrealized appreciation/depreciation

[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 value was determined using significant unobservable inputs.

[6]Notional amount shall be the current notional amount at close of period.

16. Effective [insert date 60 days after date of publication in the Federal Register], 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]

[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 value was determined using significant unobservable inputs.

[4]Column E shall be totaled and shall agree with the total of correlative amount(s) shown on the related balance sheet.

17. Effective [insert date 60 days after date of publication in the Federal Register], 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]

[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 provide a description of the index or custom basket and list separately: (i) the 50 largest components in the index or custom basket and (ii) any other components where the notional value for that components exceeds 1% of the notional value of the index or custom basket. For each investment separately listed, include the description of the underlying investment as would be required by §§210.12-12, 210.12-13, 210.12-13A, 210.12-13B, or 210.12-13D 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 or centrally cleared 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 value was determined using significant unobservable inputs.

[7]Columns G and H shall be totaled and shall agree with the total of correlative amount(s) shown on the related balance sheet.

18. Effective [insert date 60 days after date of publication in the Federal Register], 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]

[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, 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 value was determined using significant unobservable inputs.

[8]Indicate by an appropriate symbol 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.

[9]Column C shall be totaled and shall agree with the correlative amount shown on the related balance sheet.

19. Effective [insert date 60 days after date of publication in the Federal Register], revise §210.12-14 to read as follows:

§210.12-14 Investments in and advances to affiliates.

[For management investment companies only]

<table>
<tr><th>Col. A</th><th>Col. B</th><th>Col. C</th><th>Col. D</th><th>Col. E</th><th>Col. F</th></tr>
<tr><td rowspan="3">Name of issuer and title of issue or nature of indebtedness[1 2 3]</td><td rowspan="3">Number of shares—principal amount of bonds, notes and other indebtedness held at close of period</td><td rowspan="3">Net realized gain or loss for the period[4 6]</td><td rowspan="3">Net increase or decrease in unrealized appreciation or depreciation for the period[4 6]</td><td>Amount of dividends or interest [4 6]</td><td rowspan="3">Value of each item at close of period [4 5 7 8 9]</td></tr>
<tr><td>(1) Credited to income.</td></tr>
<tr><td>(2) Other.</td></tr>
</table>

[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, 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 and: (1) the end of period interest rate or (2) disclose the end of period reference rate for each reference rate described in the Schedule in a note to the Schedule. For securities with payment in kind income, disclose the rate paid in kind.

[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 §210.6-07.7 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 §210.6-07 .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 value was determined using significant unobservable inputs.

[9]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.

PART 232 — REGULATION S-T — GENERAL RULES AND REGULATIONS FOR ELECTRONIC FILINGS

20. The authority citation for part 232 continues to read, in part, as follows:

Authority: 15 U.S.C. 77c, 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, unless otherwise noted.

* * * * *

§232.105 [Amended]

21. Effective June 1, 2018, amend §232.105 by removing and reserving paragraph (a).

§232.301 [Amended]

22. Effective June 1, 2018, 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 5 (September 2015)."

§232.401 [Amended]

23. Effective August 1, 2019, 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

24. The authority citation for part 239 continues to read, in part, as follows:

Authority: 15 U.S.C. 77c, 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), 78*ll*, 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 Sec. 71003 and Sec. 84001, Pub. L. 114–94, 129 Stat. 1312, unless otherwise noted.

* * * * *

§239.23 [Amended]

25. Effective [insert date 60 days after date of publication in the Federal Register], 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

26. 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, 78c-3, 78c-5, 78d, 78e, 78f, 78g, 78i, 78j, 78j-1, 78k, 78k-1, 78*l*, 78m, 78n, 78n-1, 78*o*, 78*o*-4, 78*o*-10, 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, 7201 *et seq*. and 8302; 7 U.S.C. 2(c)(2)(E); 12 U.S.C. 5221(e)(3); 18 U.S.C. 1350; Pub. L. 111-203, 939A, 124 Stat. 1376 (2010); and Pub. L. 112-106, sec. 503 and 602, 126 Stat. 326 (2012), unless otherwise noted.

* * * * *

§240.10A-1 [Amended]

27. Effective June 1, 2018, amend §240.10A-1 paragraph (a)(4)(i) by removing the phrase "Form N-SAR, §274.101" and adding in its place "Form N-CSR, §274.128".

§240.12b-25 [Amended]

28. Effective June 1, 2018, amend §240.12b-25 by:

a. In the section heading, removing "N-SAR" and adding in its place "N-CEN";

b. In paragraph (a), removing “Form N-SAR” and adding in its place “Form N-CEN”; and

c. In paragraph (b)(2)(ii), removing “N-SAR,” and adding in its place “N-CEN,”.

§240.13a-10 [Amended]

29. Effective June 1, 2018, amend §240.13a-10 by:

a. In paragraph (h), removing the phrase “Rule 30b1-1 (§270.30b1-1 of this chapter)” and adding in its place “Rule 30a-1 (§270.30a-1 of this chapter)”;

b. In Note 1, removing “§270.30b1-1” and adding in its place “§270.30a-1”.

§240.13a-11 [Amended]

30. Effective June 1, 2018, amend §240.13a-11 paragraph (b) introductory text by removing “§270.30b1-1” and adding in its place “§270.30a-1”.

§240.13a-13 [Amended]

31. Effective June 1, 2018, amend §240.13a-13 paragraph (b)(1) by removing “§270.30b1-1” and adding in its place “§270.30a-1 of this chapter”.

§240.13a-16 [Amended]

32. Effective June 1, 2018, amend §240.13a-16 paragraph (a)(1) by removing the phrase “Rule 30b1-1 (17 CFR 270.30b1-1)” and adding in its place “§270.30a-1 of this chapter”.

§240.15d-10 [Amended]

33. Effective June 1, 2018, amend §240.15d-10 paragraph (h) by removing the phrase “Rule 30b1-1 (§270.30b1-1 of this chapter)” and adding in its place “Rule 30a-1 (§270.30a-1 of this chapter)”.

§240.15d-11 [Amended]

34. Effective June 1, 2018, amend §240.15d-11 paragraph (b) introductory text by removing "§270.30b1-1" and adding in its place "§270.30a-1".

§240.15d-13 [Amended]

35. Effective June 1, 2018, amend §240.15d-13 paragraph (b)(1) by removing "§270.30b1-1" and adding in its place "§270.30a-1 of this chapter".

§240.15d-16 [Amended]

36. Effective June 1, 2018, amend §240.15d-16 paragraph (a)(1) by removing the phrase "Rule 30b1-1 [17 CFR 270.30b1-1]" and adding in its place "§270.30a-1 of this chapter".

PART 249 — FORMS, SECURITIES EXCHANGE ACT OF 1934

37. The general authority citation for part 249 continues to read, and effective [insert date 60 days after date of publication in the Federal Register], 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; Sec. 953(b), Pub. L. 111-203, 124 Stat. 1904; Sec. 102(a)(3), Pub. L. 112-106, 126 Stat. 309 (2012); Sec. 107, Pub. L. 112-106, 126 Stat. 313 (2012), and Sec. 72001, Pub. L. 114-94, 129 Stat. 1312 (2015), unless otherwise noted.

* * * * *

Section 249.330 is also issued under 15 U.S.C. 80a-29(a).

* * * * *

§249.322 [Amended]

38. Effective June 1, 2018, amend §249.322 in the first sentence of paragraph (a) by removing the phrase "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".

39. Effective June 1, 2018, §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 U.S.C. 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]

40. Effective August 1, 2019, §249.332 is removed and reserved.

PART 270 — RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

41. 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.

* * * * *

§270.8b-16 [Amended]

42. Effective June 1, 2018, 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 §270.30a-1 of this chapter".

§270.8b-33 [Amended]

43. Effective August 1, 2019, 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".

§270.10f-3 [Amended]

44. Effective June 1, 2018, amend §270.10f-3 by removing and reserving paragraph (c)(9).

45. Effective June 1, 2018, revise §270.30a-1 to read as follows:

§270.30a-1 Annual report for registered investment companies.

Every management 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 seventy-five calendar days after the close of each fiscal year. Every unit investment trust must file an annual report on Form N-CEN (§274.101 of this chapter) at least every twelve months and not more than seventy-five calendar days after the close of each calendar 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.

§270.30a-2 [Amended]

46. Effective August 1, 2019, 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,”.

§270.30a-3 [Amended]

47. Effective August 1, 2019, 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”.

48. Effective June 1, 2018, §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]

49. Effective June 1, 2018, §270.30b1-1 is removed and reserved.

§ 270.30b1–2 [Removed and Reserved]

50. Effective June 1, 2018, §270.30b1-2 is removed and reserved.

§ 270.30b1–3 [Removed and Reserved]

51. Effective June 1, 2018, §270.30b1-3 is removed and reserved.

§ 270.30b1–5 [Removed and Reserved]

52. Effective August 1, 2019, §270.30b1-5 is removed and reserved.

53. Effective [insert date 60 days after date of publication in the Federal Register], §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.

§ 270.30d-1 [Amended]

54. Effective August 1, 2019, amend §270.30d-1 by removing the phrase "and Form N-Q (§§249.332 and 274.130 of this chapter)".

55. Effective June 1, 2018, Section 270.30d-1 is further amended by removing the phrase "Form N-SAR" and adding in its place "Form N-CEN".

* * * * *

PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

56. The general authority citation for part 274 continues to read as follows, and effective [insert date 60 days after date of publication in the Federal Register], 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.

* * * * *

§§239.15A and 274.11A [Amended]

57. Effective August 1, 2019, Form N-1A (referenced in §§239.15A and 274.11A) is amended as follows:

a. In Item 16(f), Instruction 3(b), remove the phrase "N-Q" and add in its place "N-PORT for the last month of the Fund's first or third fiscal quarters"; and

b. In Item 27(d)(1), revise Instruction 4.

The additions and revisions 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) * * *

(1) * * *

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.

* * * * *

58. Effective [insert date 60 days after date of publication in the Federal Register], Form N-1A (referenced in §§239.15A and 274.11A) is further amended as follows:

a. In Item 19, add paragraph (i) to Item 19;

b. In Item 27(b)(1), Instruction 1, remove the phrase "Schedule VI" and adding in its place "Schedule IX", and remove the phrase "[17 CFR 210.12-12C]" and adding in its place "[17 CFR 210.12-12B]";

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]"; and

d. In Item 33, add an instruction.

The additions and revisions 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 19. Investment Advisory and Other Services

* * * * *

(i) *Securities Lending.*

(1) Provide the following dollar amounts of income and fees/compensation related to the securities lending activities of each Series during its most recent fiscal year:

(i) Gross income from securities lending activities, including income from cash collateral reinvestment;

(ii) All fees and/or compensation for each of the following securities lending activities and related services: any share of revenue generated by the securities lending program paid to the securities lending agent(s) ("revenue split"); fees paid for cash collateral management services (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split; administrative fees that are not included in the revenue split; fees for indemnification that are not included in the revenue split; rebates paid to borrowers; and any other fees relating to the securities lending program that are not included in the revenue split, including a description of those other fees;

(iii) The aggregate fees/compensation disclosed pursuant to paragraph (ii); and

(iv) Net income from securities lending activities (*i.e.*, the dollar amount in paragraph (i) minus the dollar amount in paragraph (iii)).

Instruction. If a fee for a service is included in the revenue split, state that the fee is "included in the revenue split."

(2) Describe the services provided to the Series by the securities lending agent in the Series' most recent fiscal year.

* * * * *

Item 33. Location of Accounts and Records

* * * * *

Instructions.

* * *

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].

* * * * *

59. Effective August 1, 2019, Form N-2 (referenced in §§239.14 and 274.11a-1) is amended by revising paragraph (b) in Item 24, Instruction 6.

The additions and revisions 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.";

* * * * *

60. Effective [insert date 60 days after date of publication in the Federal Register], Form N-2 (referenced in §§239.14 and 274.11a-1) is further amended as follows:

a. In Item 24, Instruction 7, remove the phrase "Schedule VI" and add in its place "Schedule IX", and remove the phrase "[17 CFR 210.12-12C]" and add in its place "17 CFR 210.12-12B]"; and

b. In Item 32, add an instruction.

The additions and revisions 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 32. Location of Accounts and Records

* * * * *

Instruction. The Registrant may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

* * * * *

61. Effective August 1, 2019, Form N-3 (referenced in §§239.17a and 274.11b) is amended as follows:

a. In Item 19(e)(ii), Instruction 3(b), remove the phrase "N-Q" and add in its place "N-PORT for the Registrant's first or third fiscal quarters";

b. In Item 28(a), revise Instruction 6, paragraph (ii).

The additions and revisions 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

* * * * *

(a) * * *

Instructions. * * *

6. * * *

(ii) *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; and (iii) if the Registrant makes the information on Form N-PORT available to contract owners on its website or upon request, a description of how the information may be obtained from the Fund;

* * * * *

62. Effective [insert date 60 days after date of publication in the Federal Register], Form N-3 (referenced in §§239.17a and 274.11b) is further amended as follows:

a. In Item 21, add paragraph (j); In Item 28(a), Instruction 7(i), remove the phrase "Schedule VI" and add in its place "Schedule IX", and remove the phrase "[17 CFR

210.12-12C]" and add in its place "[17 CFR 210.12-12B]";

b. In Item 28(a), Instruction 7(i), remove the phrase "[17 CFR 210.12-12C]" and add in its place "17 CFR 210.12-12]"; and

c. In Item 36, add an instruction.

The additions and revisions 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 21. Investment Advisory and Other Services

* * * * *

(j) Securities Lending.

(i) Provide the following dollar amounts of income and fees/compensation related to the securities lending activities of each series of the Registrant during its most recent fiscal year:

(A) Gross income from securities lending activities;

(B) All fees and/or compensation for each of the following securities lending activities and related services: any share of revenue generated by the securities lending program paid to the securities lending agent(s) ("revenue split"); fees paid for cash collateral management services (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split; administrative fees that are not included in the revenue split; fees for indemnification that are not included in the revenue split; rebates paid to borrowers; and any other fees relating to the securities lending program that are not included in the revenue split, including a description of those other fees;

(C) The aggregate fees/compensation disclosed pursuant to paragraph (B); and

(D) Net income from securities lending activities (*i.e.*, the dollar amount in paragraph (A) minus the dollar amount in paragraph (C)).

Instruction. If a fee for a service is included in the revenue split, state that the fee is "included in the revenue split."

(ii) Describe the services provided to the series of the Registrant by the securities lending agent in the series of the Registrant's most recent fiscal year.

* * * * *

Item 36. Location of Accounts and Records

* * * * *

Instruction. The Registrant may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

* * * * *

63. Effective [insert date 60 days after date of publication in the Federal Register], Form N-4 (referenced in §§239.17b and 274.11c) is amended by adding an instruction to Item 30 to read as follows:

Form N-4

* * * * *

Item 30. Location of Accounts and Records

* * * * *

Instruction. The Registrant may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

* * * * *

64. Effective [insert date 60 days after date of publication in the Federal Register], Form N-6 (referenced in §§239.17c and 274.11d) is amended by adding an instruction to Item 31 to read as follows:

Form N-6

* * * * *

Item 31. Location of Accounts and Records

* * * * *

Instruction. The Registrant may omit this information to the extent it is provided in its most recent report on Form N-CEN [17 CFR 274.101].

* * * * *

65. Effective June 1, 2018, §274.101 is 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. Such reports should be filed not later than 75 days after the close of the fiscal year for which the report is being prepared, except that unit investment trusts shall file such reports not later than 75 days after the close of the calendar 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 B.6.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

1. All registered investment companies with shares outstanding (other than shares issued in connection with an initial investment to satisfy section 14(a) of the Act) must file a report on Form N-CEN at least annually. Management investment companies offering multiple series with different fiscal year ends must file a report as of each fiscal year end that responds to (i) Parts A, B, and G, and (ii) Part C and, if applicable, Part E as to only those series with the fiscal year end covered by the report.

   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 2017 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, 2017 and a report for the period ending December 31, 2017. A Registrant could not, however, only file a report for the fiscal period ending December 31, 2017 if its last report was filed for the fiscal period ending September 30, 2016.

   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).

2. 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.

3. 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, except for information reported in response to Item B.9.h. 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, Washington, DC 20549. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. 3507.

E. 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 Fund that has more than one class 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 Fund from provisions of section 18 of the Act (15 U.S.C. 80a-18).

"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 (or series thereof), 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 (or series thereof), the shares of which are listed and traded on a national securities exchange at net asset value-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 by a utility endorsed by the Global LEI Regulatory Oversight Committee or accredited by 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).

"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 A.1. Reporting period covered.

a. Report for period ending: [yyyy/mm/dd]

b. Does this report cover a period of less than 12 months? [Y/N]

Part B:Information About the Registrant

Item B.1. Background information.

a. Full name of Registrant: ____

b. Investment Company Act file number (*e.g.*, 811-): ____

c. CIK: ____

d. LEI: ____

Item B.2. 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 B.3. 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 B.4. 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 B.4.b only if the Registrant has filed an application to deregister or will file an application to deregister before its next required filing on this form

Item B.5. 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 B.6. 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 with a fiscal year end covered by the report 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 F.13 through Item F.16 of this Form in addition to the Parts required by 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 B.6.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 B.7. 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 B.8. Directors: Provide the information requested below about each person serving as director of the Registrant (management investment companies only):

a. Full name: ____

b. CRD number, if any: ____

c. Is the person 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]

d. Investment Company Act file number of any other registered investment company for which the person also serves as a director (*e.g.*, 811-): ____

Item B.9. Chief compliance officer. Provide the information requested below about each 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 IRS Employer Identification Number: ____

Item B.10. Matters for security holder vote. Were any matters submitted by the Registrant for its security holders' vote during the reporting period? [Y/N]

a. If yes, and to the extent the response relates only to certain series of the Registrant, indicate the series involved:

   i. Series name: _____

   ii. Series identification number: ____

Instruction. Registrants registered on Forms N-3, N-4 or N-6, should respond "yes" to this Item only if security holder votes were solicited on contract-level matters.

Item B.11. 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 G.1.a.i.

   i. If yes, and to the extent the response relates only to certain series of the Registrant, indicate the series involved:

      1. Series name: _____

      2. Series identification number: ____

b. Has any proceeding previously reported been terminated? [Y/N] If yes, include the attachment required by Item G.1.a.i.

   i. If yes, and to the extent the response relates only to certain series of the Registrant, indicate the series involved:

      1. Series name: _____

      2. Series identification number: ____

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 B.12. 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 B.13. 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 B.14. 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 G.1.a.ii, unless the Registrant is a Money Market Fund.

a. If yes and to the extent the response relates only to certain series of the Registrant, indicate the series involved:

    i. Series name: _____

    ii. Series identification number: ____

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 reasonably intended to increase or stabilize the value or liquidity of the Registrant's portfolio, (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 B.15. 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 B.16. 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 B.17. Independent public accountant. Provide the following information about each 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]

Item B.18. Report on internal control (management investment companies only). For the reporting period, did an independent public accountant's report on internal control note any material weaknesses? [Y/N]

Instruction. Small business investment companies are not required to respond to this item.

Item B.19. 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]

a. If yes, and to the extent the response relates only to certain series of the Registrant, indicate the series involved:

   i. Series name: _____

   ii. Series identification number: ____

Item B.20. 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. Asset type involved: ____

d. Type of investments involved: ____

e. Statutory or regulatory basis, if any: ____

f. To the extent the response relates only to certain series of the Registrant, indicate the series involved:

   i. Series 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). In responding to Item B.20.c., provide the applicable "asset type" category specified in Item C.4.a. of Form N-PORT. In responding to Item B.20.d., provide a brief description of the type of investments involved. If the change in valuation methods applies only to certain sub-asset types included in the response to Item B.20.c., please provide the sub-asset types in the response to Item B.20.d. The responses to Item B.20.c. and Item B.20.d. should be identical only if the change in valuation methods applies to all assets within that category.

Item B.21. 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 G.1.a.iv.

Item B.22. Net asset value error corrections (open-end management investment companies only).

a. During the reporting period, were any payments made to shareholders or shareholder accounts reprocessed as a result of an error in calculating the Registrant's net asset value (or net asset value per share)? [Y/N]

    i. If yes, and to the extent the response relates only to certain Series of the Registrant, indicate the Series involved:

        1. Series name: _____

        2. Series identification number: ____

Item B.23. 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]

a. If yes, and to the extent the response relates only to certain Series of the Registrant, indicate the Series involved:

    i. Series name: _____

    ii. Series identification number: ____

Part C: Additional Questions for Management Investment Companies

Item C.1. 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 C.2. 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 C.3. 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. Is the index whose performance the Fund tracks, constructed:

1. By an affiliated person of the fund? [Y/N]

2. Exclusively for the fund? [Y/N]

ii. 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): ____

iii. 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 an index or other benchmark, the inverse of an index or other benchmark, or a multiple of the inverse of an index or other 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)), but, for purposes of this Item, does not include a fund that acquires securities issued by another investment company solely in reliance on rule 12d1-1 under the Act (CFR 270.12d1-1).

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)) or pursuant to exemptive relief granted by the Commission.

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 C.4. 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 C.5. 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 C.6. 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, during the reporting period, did any borrower fail to return the loaned securities by the contractual deadline with the result that:

      1. The Fund (or its securities lending agent) liquidated collateral pledged to secure the loaned securities? [Y/N]

      2. The Fund was otherwise adversely impacted? [Y/N]

Instruction. For purposes of this Item, other adverse impacts would include, for example, (1) a loss to the Fund if collateral and indemnification were not sufficient to replace the loaned securities or their value, (2) the Fund's ineligibility to vote shares in a proxy, or (3) the Fund's ineligibility to receive a direct distribution from the issuer.

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: ____

   vi. Did the Fund exercise its indemnification rights during the reporting period? [Y/N]

d. If a person managing any pooled investment vehicle in which cash collateral is invested in connection with the Fund's securities lending activities (*i.e.*, a cash collateral manager) does not also serve as securities lending agent, provide the following information about each person:

   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: _____.

f. Provide the monthly average of the value of portfolio securities on loan during the reporting period. ___

g. Provide the net income from securities lending activities. ____

Item C.7. 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 C.8. 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 C.9. 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-): ____

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 each 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 C.10. 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]

vii. Is the transfer agent a sub-transfer agent? [Y/N]

b. Has a transfer agent been hired or terminated during the reporting period? [Y/N]

Item C.11. Pricing services.

a. Provide the following information about each person that provided pricing services to the Fund during the reporting period:

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 pricing service an affiliated person of the Fund or its investment adviser(s)? [Y/N]

b. Was a pricing service hired or terminated during the reporting period? [Y/N]

Item C.12. 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 C.13. 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]

   vi. Is the shareholder servicing agent a sub-shareholder servicing agent? [Y/N]

b. Has a shareholder servicing agent been hired or terminated during the reporting period? [Y/N]

Item C.14. Administrators.

a. Provide the following information about each 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 administrator an affiliated person of the Fund or its investment adviser(s)? [Y/N]

   vi. Is the administrator a sub-administrator? [Y/N]

b. Has an administrator been hired or terminated during the reporting period? [Y/N]

Item C.15. 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 C.16. 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 C.17. 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 C.16 and Item C.17.

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 C.16.

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 C.17.

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 C.17 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 C.17 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 C.17.

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 C.16 and Item C.17. 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 C.16 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 C.18. 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]

Item C.19. Average net assets.

a. Provide the Fund's (other than a money market fund's) monthly average net assets during the reporting period: ___

b. Provide the money market fund's daily average net assets during the reporting period: ___

Part D: Additional Questions for Closed-End Management Investment Companies and Small Business Investment Companies

Item D.1. 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: ____

   i. Title of class: ____

   ii. Exchange where listed: ____

   iii. 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 D.2. 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 D.2.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 D.3. 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 securities: ____

   v. Bonds: ____

   vi. Other: ____. If other, describe: _____.

Item D.4. 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 D.5. 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 D.6. 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 D.7. 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 G.1.b.ii.

Item D.8. Management fee (closed-end companies only). Provide the Fund's advisory fee as of the end of the reporting period as a percentage of net assets: ____

Instruction. Base the percentage on amounts incurred during the reporting period.

Item D.9. 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 D.10. 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 D.11. 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 D.12. 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-): ____

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 each 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 D.13. 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]

vii. Is the transfer agent a sub-transfer agent? [Y/N]

b. Has a transfer agent been hired or terminated during the reporting period? [Y/N]

Item D.14. 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 E.1. Exchange.

a. Exchange where listed. Provide the name of the national securities exchange on which the Fund's shares are listed: ____

b. Ticker. Provide the Fund's ticker symbol: ____

Item E.2. 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: ____

g. Did the Fund require that an authorized participant post collateral to the Fund or any of its designated service providers in connection with the purchase or redemption of Fund shares during the reporting period? [Y/N]

Instruction. The term "authorized participant" means a broker-dealer that is also a member of a clearing agency registered with the Commission or a DTC Participant, 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 the authorized participant to place orders to purchase or redeem creation units of the Exchange-Traded Fund or Exchange-Traded Managed Fund.

Item E.3. Creation units.

a. Number of Fund shares required to form a creation unit as of the last business day of the reporting period: ____

b. Based on the dollar value paid for each creation unit purchased by authorized participants during the reporting period, provide:

i. The average percentage of that value composed of cash: ___%

ii. The standard deviation of the percentage of that value composed of cash: ___%

iii. The average percentage of that value composed of non-cash assets and other positions exchanged on an "in-kind" basis: ___%

iv. The standard deviation of the percentage of that value composed of non-cash assets and other positions exchanged on an "in-kind" basis: ___%

c. Based on the dollar value paid for creation units redeemed by authorized participants during the reporting period, provide:

i. The average percentage of that value composed of cash: ___%

ii. The standard deviation of the percentage of that value composed of cash: ___%

iii. The average percentage of that value composed of non-cash assets and other positions exchanged on an "in-kind" basis: ___%

iv. The standard deviation of the percentage of that value composed of non-cash assets and other positions exchanged on an "in-kind" basis: ___%

d. For creation units purchased by authorized participants during the reporting period, provide:

i. The average transaction fee charged to an authorized participant for transacting in the creation units, expressed as:

1. Dollars per creation unit, if charged on that basis: $___

2. Dollars for one or more creation units purchased on the same day, if charged on that basis: $___

3. A percentage of the value of each creation unit, if charged on that basis: $___

ii. The average transaction fee charged to an authorized participant for transacting in those creation units the consideration for which was fully or partially composed of cash, expressed as:

1. Dollars per creation unit, if charged on that basis: $___

2. Dollars for one or more creation units purchased on the same day, if charged on that basis: $___

3. A percentage of the cash in each creation unit, if charged on that basis: ___%

e. For creation units redeemed by authorized participants during the reporting period, provide:

i. The average transaction fee charged to an authorized participant for transacting in the creation units, expressed as:

1. Dollars per creation unit, if charged on that basis: $___

2. Dollars for one or more creation units redeemed on the same day, if charged on that basis: $___

3. A percentage of the value of each creation unit, if charged on that basis: $___

ii. The average transaction fee charged to an authorized participant for transacting in those creation units the consideration for which was fully or partially composed of cash, expressed as:

1. Dollars per creation unit, if charged on that basis: $___

2. Dollars for one or more creation units redeemed on the same day, if charged on that basis: $___

3. A percentage of the cash in each creation unit, if charged on that basis: ___%

Instruction. 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 or positions.

Item E.4. Benchmark return difference (unit investment trusts only).

a. If the Fund is an Index Fund as defined in Item C.3 of this Form, provide the following information:

i. Is the index whose performance the Fund tracks, constructed:

1. By an affiliated person of the fund? [Y/N]

2. Exclusively for the fund? [Y/N]

ii. 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): ____

iii. 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 F.1. Depositor. Provide the following information about each 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 F.2. Administrators.

a. Provide the following information about each 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 administrator an affiliated person of the Fund or depositor? [Y/N]

vi. Is the administrator a sub-administrator? [Y/N]

b. Has an administrator been hired or terminated during the reporting period? [Y/N]

Item F.3. Insurance company separate accounts. Is the Registrant a separate account of an insurance company? [Y/N]

Instruction. If the answer to Item F.3 is yes, respond to Item F.12 through Item F.17. If the answer to Item F.3 is no, respond to Item F.4 through Item F.11, and Item F.17.

Item F.4. Sponsor. Provide the following information about each sponsor:

a. Full name: ____

b. CRD number, if any: ____

c. LEI, if any: ____

d. State, if applicable: ____

e. Foreign country, if applicable: ____

Item F.5. Trustees. Provide the following information about each trustee:

a. Full name: ____

b. State, if applicable: ____

c. Foreign country, if applicable: ____

Item F.6. Securities Act registration.

a. Provide the number of series existing at the end of the reporting period that had outstanding securities registered under the Securities Act: ____

b. Provide the CIK for each of these existing series: ____

Item F.7. 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 F.8. Series with a current prospectus. Number of series for which a current prospectus was in existence at the end of the reporting period: _____

Item F.9. 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 F.10. 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 F.11. Assets. Provide the total assets of all series of the Registrant combined as of the end of the reporting period: ____

Item F.12. Series ID of separate account. Series identification number: ____

Item F.13. 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 F.14. 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 F.15. 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 F.16. 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 F.17. 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 F.17 shall terminate one year after the first date on which all statutory provisions that underlie section 13(c) have terminated.

Part G: Attachments

Item G.1. 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. Independent public accountant's report on internal control (management investment companies other than small business investment companies only): ____

   iv. Change in accounting principles and practices: ____

   v. Information required to be filed pursuant to exemptive orders: ____

   vi. Other information required to be included as an attachment pursuant to Commission rules and regulations: ____

Instructions.

1. Item G.1.a.i. Legal proceedings.

(a) If the Registrant responded "YES" to Item B.11.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 B.11.b., identify the proceeding and give its date of termination.

2. Item G.1.a.ii. Provision of financial support. If the Registrant responded "YES" to Item B.14., 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.

3. Item G.1.a.iii. Independent public accountant's report on internal control (management investment companies other than small business investment companies only). 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.

4. Item G.1.a.iv. Change in accounting principles and practices. If the Registrant responded "YES" to Item B.21, 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.

5. Item G.1.a.v. 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.

6. Item G.1.a.vi. 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 below.

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.

7. Item G.1.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.

8. Item G.1.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.

9. Item G.1.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.

10. Item G.1.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.

11. Item G.1.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. Effective [insert date 60 days after date of publication in the Federal Register], Form N-CSR (referenced in §274.128) is amended as follows:

a. In Item 2(c) and 2(f), remove the phrase "Item 12(a)(1)" and add in its place "Item 13(a)(1)";

b. In Item 11(b), remove the phrase "the second fiscal quarter of";

c. Revise the instruction to Item 11(b);

d. Redesignate Item 12 as Item 13;

e. Add new Item 12;

f. In paragraph 4(d) of the certification exhibits listed in Item 13, remove the phrase "the second fiscal quarter of the";

g. In Item 13, revise the instruction to paragraph (a)(2);

h. In Item 13, add paragraph (a)(4).

The additions and revisions read as follows:

Note: The text of Form N-CSR does not, and these amendments will not, appear in the *Code of Federal Regulations*.

Form N-CSR

* * * * *

Item 11. Controls and Procedures.

(b) * * *

Instruction to paragraph (b). Until the date that the registrant has filed its first report on Form N-PORT [17 CFR 270.150], the registrant's disclosures required by this Item are limited to any change in the registrant's internal control over financial reporting that occurred during the

registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

* * * * *

Item 12. Disclosure of Securities Lending Activities for Closed-End Management Investment Companies

(a) If the registrant is a closed-end management investment company, provide the following dollar amounts of income and fees/compensation related to the securities lending activities of the registrant during its most recent fiscal year:

(1) Gross income from securities lending activities;

(2) All fees and/or compensation for each of the following securities lending activities and related services: any share of revenue generated by the securities lending program paid to the securities lending agent(s) ("revenue split"); fees paid for cash collateral management services (including fees deducted from a pooled cash collateral reinvestment vehicle) that are not included in the revenue split; administrative fees that are not included in the revenue split; fees for indemnification that are not included in the revenue split; rebates paid to borrowers; and any other fees relating to the securities lending program that are not included in the revenue split, including a description of those other fees;

(3) The aggregate fees/compensation disclosed pursuant to paragraph (2); and

(4) Net income from securities lending activities (*i.e.*, the dollar amount in paragraph (1) minus the dollar amount in paragraph (3)).

Instruction to paragraph (a). If a fee for a service is included in the revenue split, state that the fee is "included in the revenue split."

(b) If the registrant is a closed-end management investment company, describe the

services provided to the registrant by the securities lending agent in the registrant's most recent fiscal year.

* * * * *

Item 13. Exhibits.

(a) * * *

(2) * * *

Instruction to paragraph (a)(2). Until the date that the registrant has filed its first report on Form N-PORT [17 CFR 270.150], in the certification required by Item 13(a)(2), the registrant's certifying officers must certify that they have disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

* * * * *

(4) Change in the registrant's independent public accountant. 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.

§ 274.130 [Removed and Reserved]

67. Effective August 1, 2019, §274.130 is removed and reserved.

68. Effective [insert date 60 days after date of publication in the Federal Register], §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 fund 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. 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.

If the due date falls on a weekend or holiday, the filing deadline will be the next business day. Reports on Form N-PORT must disclose portfolio information as calculated by the fund for the reporting period's ending net asset value (commonly, and as permitted by rule 2a-4, the first business day following the trade date). 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, Washington, DC 20549. 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 Fund that has more than one class that represents interests in the same portfolio of securities under rule 18f-3 [17 CFR 270.18f-3] or under an order exempting the Fund from provisions of section 18 of the Act [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 Fund" means an open-end management investment company (or Series or Class thereof) or unit investment trust (or series thereof), 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.

"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.

"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 by a utility endorsed by the Global LEI Regulatory Oversight Committee or accredited by 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.

"Registrant" means a management investment company, or an Exchange-Traded Fund 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 that is identifiable to any particular fund or adviser, or any information reported with regards to country of risk and economic exposure (Item C.5.b of this Form), delta (Items C.9.f.v, C.11.c.vii, or C.11.g.iv), or miscellaneous securities (Part D of this Form), or explanatory notes related to any of those topics (Part E) that is identifiable to any particular fund or adviser. 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:

- Funds may respond to this Form using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors. However, the methodologies and conventions must be consistently applied and the Fund's responses must be consistent with any instructions or other guidance relating to this Form. A Fund may explain any of its methodologies, including related assumptions, in Part E.
- A Fund is not required to respond to an item that is wholly inapplicable (for example, no response would be required for Item C.11 when reporting information about an investment that is not a derivative). If a sub-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), (*e.g.*, 5.27%);
- 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 date, provide information in yyyy/mm/dd 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.

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 average value of the Fund's debt securities positions for the previous three months, in the aggregate, exceeds 25% or more of the Fund's net asset value, provide:

a. Interest Rate Risk (DV01). For each currency for which the Fund had a value of 1% or more of the Fund's net asset value, provide the change in value of the portfolio resulting from a 1 basis point change in interest rates, for each of the following maturities: 3 month, 1 year, 5 years, 10 years, and 30 years.

b. Interest Rate Risk (DV100). For each currency for which the Fund had a value of 1% or more of the Fund's net asset value, provide the change in value of the portfolio resulting from a 100 basis point change in interest rates, for each of the following maturities: 3 month, 1 year, 5 years, 10 years, and 30 years.

c. Credit Spread Risk (SDV01, CR01 or CS01). Provide the change in value of the portfolio resulting from a 1 basis point change in credit spreads where the shift is applied to the option adjusted spread, aggregated by investment grade and non-investment grade exposures, for each of the following maturities: 3 month, 1 year, 5 years, 10 years, and 30 years.

For purposes of Item B.3., calculate value as the sum of the absolute values of: (i) the value of each debt security, (ii) the notional value of each swap, including, but not limited to, total return swaps, interest rate swaps, and credit default swaps, for which the underlying reference asset or assets are debt securities or an interest rate; (iii) the notional value of each futures contract for which the underlying reference asset or assets are debt securities or an interest rate; and (iv) the delta-adjusted notional value of any option for which the underlying reference asset is an asset described in clause (i),(ii), or (iii). 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.

a. For each borrower in any securities lending transaction, provide the following information:

i. Name of borrower.

ii. LEI (if any) of borrower.

iii. Aggregate value of all securities on loan to the borrower.

b. Did any securities lending counterparty provide any non-cash collateral? [Y/N] If yes, unless the non-cash collateral is included in the Schedule of Portfolio Investments in Part C, provide the following information for each category of non-cash collateral received for loaned securities:

i. Aggregate principal amount.

ii. Aggregate 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; U.S. Treasuries (including strips); other instrument). If "other instrument," include a brief description, including, if applicable, whether it is an irrevocable letter of credit.

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 asset categories: commodity contracts, credit contracts, equity contracts, foreign exchange contracts, interest rate contracts, and other contracts. Within each such asset category, further report the same information for each of the following types of derivatives instrument: forward, future, option, swaption, swap, warrant, and other. 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. If shares of the Fund are held in omnibus accounts, for purposes of

calculating the Fund's sales, redemptions, and repurchases, use net sales or redemptions/repurchases from such omnibus accounts. 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.

Item B.7. [Reserved]

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 reported by name to the shareholders of the Fund or to any exchange, or set forth in any registration statement, application, or report to shareholders or otherwise made available to the public.

Item C.1. Identification of investment.

a. Name of issuer (if any).

b. LEI (if any) of issuer. In the case of a holding in a fund that is a series of a series trust, report the LEI of the series.

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, derivatives-other, 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.

a. Report the ISO country code that corresponds to the country where the issuer is organized.

b. If different from the country where the issuer is organized, also 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.

Item C.6. Is the investment a Restricted Security? [Y/N]

Item C.7. [Reserved]

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] Report "N/A" if the investment does not have a level associated with it (i.e., net asset value used as the practical expedient).

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 or if the Fund has the option of electing in-kind payment and has elected to be 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 not 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 (if applicable).

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. Type of derivative instrument that most closely represents the investment, selected from among the following (forward, future, option, swaption, swap (including but not limited to total return swaps, credit default swaps, and interest rate swaps), 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 or custom basket, and if the index's or custom basket'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 or custom basket'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. If the index's or custom basket's components are not publicly available in that manner, and the notional amount of the derivative represents more than 5% of the net asset value of the Fund, provide the (i) name, (ii) identifier, (iii) 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), and (iv) value of every component in the index or custom basket. The identifier shall include CUSIP of the index's or custom basket's components, 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.

         If the index's or custom basket's components are not publicly available in that manner, and the notional amount of the derivative represents greater than 1%, but 5% or less, of the net asset value of the Fund, Funds shall report the required component information described above, but may limit reporting to the (i) 50 largest components in the index and (ii) any other components where the notional value for that components is over 1% of the notional value of the index or custom basket.

      3. If the reference instrument is neither a derivative, an index, or a custom basket, 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 not 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. Depreciation shall be reported as a negative number.

d. For futures and forwards (other than forward foreign currency contracts), 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. Depreciation shall be reported as a negative number.

e. For forward foreign currency contracts and foreign currency swaps, provide:

i. Amount and description of currency sold.

ii. Amount and description of currency purchased.

iii. Settlement date.

iv. Unrealized appreciation or depreciation. Depreciation shall be reported as a negative number.

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 coupon rate, fixed coupon rate, 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. Depreciation shall be reported as a negative number.

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. Depreciation shall be reported as a negative number.

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 that is treated as a Fund asset and 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 Fund? [Y/N] If Yes, provide the value of the securities on loan.

Part D: Miscellaneous Securities

For reports filed for the last month of each fiscal quarter, 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 response to any Item of this Form. The Fund may also explain any assumptions that it made in responding to any Item of this Form. To the extent responses relate to a particular Item, provide the Item number(s), as applicable.

For reports filed for the end of the first and third quarters of the Fund's fiscal year, attach no later than 60 days after the end of the reporting period 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 – 12-13D].

SIGNATURES

The Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Registrant: _____ By (Signature): _____

Name: _____

Title: _____

Date: _____

69. Effective June 1, 2018, Form N-8F (referenced in §274.218) is amended by revising Instruction 6 to read as follows:

Form N-8F

* * * * *

***Instructions* for using Form N- 8F**

* * * * *

6. Funds are reminded of the requirement to timely file a final Form N-CEN with the Commission. *See* rule 30a1-1 under the Act [17 CFR 270.30a1-1]; Form N-CEN [17 CFR 274.101].

By the Commission.

Brent J. Fields
Secretary

Dated: October 13, 2016

[FR Doc. 2016-25349 Filed: 11/17/2016 8:45 am; Publication Date: 11/18/2016]