

MEMORANDUM

To: File No. S7-24-15

From: Jennifer R. Porter
Senior Advisor to Chair White
U.S. Securities and Exchange Commission

Date: June 6, 2016

Re: Use of Derivatives by Registered Investment Companies and Business Development Companies: Release Number IC-31933

On June 2, 2016, Andrew (Buddy) Donohue, Jennifer Porter and Ryan Van Grack met with Christopher J. Dahlberg, AlphaSimplex Group, LLC, Vice President, Compliance; Nicole DonVito, Senior Counsel & Head of Registered Products, AQR Capital Management, LLC and Chief Legal Officer, AQR Funds; Kathryn Fulton, Managing Director, BlackRock; Kalaundra (Kally) Carreathers, Derivatives Counsel, Brandywine Global Investment Management, LLC; Tilak Lal, Franklin Templeton Investments, Managing Director, Chief Risk Officer – K2; Arthur Leiz, Managing Director – IMD Global Risk Management and Wendy Yun, Managing Director & Associate General Counsel, Goldman Sachs Asset Management, L.P.; Mara Shreck, Head of Regulatory Affairs, Asset Management, JP Morgan and Michael Murray, Executive Director, Fixed Income, Derivatives, JP Morgan Asset Management; Gifford R. Zimmerman, Managing Director and Associate General Counsel, Nuveen Investments; Jerry Cubbin, Senior Vice President, OppenheimerFunds; Stephen King, Senior Vice President & Senior Counsel, Pacific Investment Management Company LLC; Timothy W. Cameron, Managing Director, Head of Asset Management Group, SIFMA Asset Management Group and Aseel M. Rabie, Managing Director and Associate General Counsel, SIFMA; William Thum, Principal, Vanguard Group, Inc. and Michael R. Roach, Portfolio Manager, Vanguard Quantitative Equity Group; and P. Georgia Bullitt, Partner and James R. Burns, Partner, Willkie Farr & Gallagher LLP.

The purpose of the meeting was to discuss the Commission's proposal on the use of derivatives by registered investment companies and business development companies.

Attachment

Comparison of VaR approaches

	(current proposal) 300% Derivatives Exposure Limit AND Derivatives must be VaR reducing	300% Derivatives Exposure Limit AND VaR must be less than 20%	300% Derivatives Exposure Limit AND [Derivatives VaR – securities VaR] < x%
game-able	Unlikely*	Unlikely*	Unlikely*
Predictable / controllable	No (correlations can flip)	Yes	No
operational ease of use	Difficult	Easy	Difficult
aligns with investment process	No	Yes	No
		Already in practice in UCITS	
expected casualties	Levered ETFs Some fixed income funds. <u>Most</u> liquid Alts funds: - Several Multi-strat - All Macro - Currency	Levered ETFs <u>Some</u> Liquid Alts that are more volatile than long only equity funds - Few Multi-strat - Some Macro - Some Currency	Some levered ETFs <u>Some</u> Liquid Alts that are more volatile than long only equity funds - Some Multi-strat - Some Macro - Some Currency

*Derivatives Risk Manager and derivatives risk management program with board oversight are game changers