BEFORE THE
OFFICE OF THE SECRETARY
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

In the Matter of: Proposed Amendments to Forms Designed to Improve the Reporting and Disclosure of Liquidity Information by Open-end Investment Companies	)	File Number S7-04-18

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As a first-year law school student with a bachelor's degree in finance, I am pleased to submit these comments in response to the Security and Exchange Commission's (SEC) proposed amendments to Form N-PORT & rule 22e-4. My comments focus on the amendments to the liquidity public disclosure requirement.

I. INTRODUCTION

On October 13, 2016, the SEC adopted new Form N-PORT and rule 22e-4 to improve the reporting and disclosure of information by registered investment companies ("funds"). Under Rule 22e-4, a fund is required to classify each portfolio investment into one of four defined liquidity categories and report confidentially the classification results to the Commission. In addition, a fund must report on Form N-PORT the aggregate percentage of its portfolio investments that falls into each of the four liquidity classification categories. This aggregate information is disclosed to the public on a quarterly basis.

Commenters asserted three major concerns with the aggregate profile disclosure requirement. First, the classification process is highly subjective. Funds use various underlying assumptions and methodologies to determine which one of the liquidity categories a portfolio investment falls into. Funds would have an incentive to manipulate their methodologies to classify their securities as more liquid in order to make themselves more attractive on the market. This would not only increase the risk of investor confusion, but also undermine the Commission's goal for proper liquid risk management by funds.

Second, the aggregate profile disclosure is out of context. Form N-PORT does not give funds the opportunity to explain their underlying methodologies for classification. Aggregate liquidity profile is to be reported on Form N-PORT, whose information is usually only understandable by sophisticated investors. These sophisticated investors would need contextual information regarding the underlying assumptions and methodologies used in the classification process to fully understand a fund's liquidity aggregate profile and its inferences.

Third, singling out liquidity risk in Form N-PORT may encourage investors overly focus on liquidity risk and neglect other significant investment risks. An investor may be induced to choose a more liquid fund without adequately considering other risks associated with the fund. Moreover, to satisfy investors' demand for liquidity, funds would be incentivized to hold excessive liquid assets, putting all their "eggs" in the liquidity "basket". This is pernicious because when something bad happens to these highly-liquid assets, they may become ironically illiquid when everyone is trying to dump them.

In response to these concerns, the Commission proposes to replace the Form N-PROT's liquidity disclosure requirement with a new requirement for funds to briefly discuss the operation and effectiveness of their liquidity management program in the fund's annual shareholder report. Funds would not be required disclose their aggregate liquidity profiles but they could do so if they wished. They could also choose to disclose specific assets in each classification category or any other classification information. The Commission thinks that requiring funds to disclose lengthy, detailed contextual information such as assumptions and methodologies used for classification may not be consistent with SEC's policy to protect funds' sensitive private information. It may also not be the most efficient way to fulfill the Commission's goal of improving liquidity management by funds.

II. COMMENT

A. Compared to Rescinding the Requirement for Funds to Publicly Disclose Aggregate Liquidity Profiles, Applying a New Uniform Standard for Classification is More Consistent with the Commission's Goal to Properly Inform Investors and Protect Funds' Confidential Information.

I appreciate the Commission's concern about requiring funds to publicly disclose funds' internal information regarding liquidity risk such as underlying assumptions and methodologies used in their classification processes. Being required to disclose such detailed, private business information would be unduly burdensome. A fund's business interests may be damaged because its competitors may take advantage of such detailed information to either improve their own businesses or jeopardize the fund's operation. Therefore, I fully support the Commission's proposal to not demand lengthy disclosure of classification assumptions and methodologies used by funds.

However, the Commission should not rescind the requirement for funds to publicly disclose their aggregate liquidity profiles. The main issue with the aggregate liquidity profile reporting requirement is the subjectivity of the classification process. It creates a moral hazard problem because a fund is free to manipulate its classification process to make its assert look more liquid and thus more attractive to investors. The Commission proposes to solve the subjectivity issue by making it more "subjective" - not requiring funds to publicly disclose a liquidity profile at all. However, giving more discretion to the funds in deciding what kind of liquidity information to be disclosed cannot solve, if not worsen, the moral hazard problem. Even if a fund is not required to publicly disclose its aggregate liquidity profile, it may still choose to do so to attract investors because the public disclosure would not substantially increase its costs since the fund still needs to report the same information to the Commission. However, the information remains subjective and hazardous to investors.

The investors would eventually take on the risks because of the information asymmetry between the funds and the investors. Investors would have no information about the classification standards used by funds and would therefore never know which funds are exaggerating their liquidity and which are being honest and cautious in their classification processes. Investors would be forced to make uninformed investment decisions and bear higher risks of loss while the funds are benefiting from manipulating the classification processes. This would negate the Commission's intent to make it easy for investors to measure a fund's liquidity risk and make informed decisions. Absent reasons to loosen regulation on funds' liquidity reporting, I suggest fixing the subjectivity issue instead of abandoning the requirement completely.

To solve the subjectivity issue, the Commission should to establish a uniform standard for liquidity classification. Since the Commission has been requiring funds to submit their detailed liquidity classification results confidentially despite knowing that they are highly subjective, I believe the Commission has developed its own methodologies to reduce the subjectivity of the raw data and properly use the classification information including funds' aggregate profiles to evaluate their liquidity risks. Therefore, I advise the Commission to develop a uniform classification standard based on these methodologies used to evaluate and monitor funds' liquidity profiles. This would incur less costs than starting from scratch because it would be based on previously used methodologies.

If a single uniform standard is not viable, the Commission could use a couple of uniform standards for different funds. The Commission can classify funds into broad categories according to their sizes, credits, prior history of liquidity crisis, and other relevant characteristics. Under this approach, although each category would use a different standard, investors could at least accurately compare two funds' aggregate liquidity profiles if they are in the same category.

Even if the Commission thinks two approaches noted above are not feasible, the Commission should create a more specific guidance that funds must follow in their classification processes. Although this third approach can't eliminate subjectivity in the liquidity classification process, it would at least alleviate the subjectivity problem, reduce risk of investor confusion and funds' moral hazard (manipulating their classification assumptions and methodologies to make their assets more attractive to investors), and remain the benefits of disclosing aggregate liquidity profile.

b. To Effectively Inform Investors, a Fund's Public Liquidity Disclosure Should be Put into Comprehensive Context, including Brief Discussion of the Operation and Effectiveness of its Liquidity Management Program, and be at Least as Frequent as What the Current Rule Requires.

I fully agree with the proposal to place a fund's publicly-disclosed liquidity profile or a brief discussion of its liquidity management program in a more comprehensive context, such as in a shareholder report where a fund would normally discuss other risks of the company. In a shareholder report, investors would have the opportunity to consider a fund's liquidity profile with its balance sheet, income statement, equity report and cash flow statement. In this way, investors would be more likely to take a holistic approach to evaluate a fund's other risks such as credit risk, market risk and operational risk before they make an investment decision. This would address the issue of singling liquidity risk from other risks in Form N-PORT and potential excessive focus on liquidity risk by investors.

I also agree that a fund should be required to discuss briefly the operation and effectiveness of its liquidity management requirement because by providing holistic information regarding the fund's liquidity risk management strategy and operation, it would allow investors to appreciate the totality of the fund's liquidity risk and not just the asset-side of the balance sheet. Liquidity management is not only about how much liquid assets a fund owns but also about how much redemptions or debts it need to pay for a certain period - issues arising from the liability side of the balance sheet. The goal of liquidity management is to ensure the liquid assets can meet the obligations arising from the liability side. Investors should be informed about how a fund evaluate its future redemption obligations, how much of its debts is about to mature, and its plan to deal with unexpected fluctuations of the financial market. Providing more information about the liability side and the management plan would enhance investors' understanding of the role a disclosed liquidity profile plays in a fund's liquidity management program, which would address the second concern about lack of context in Form N-PORT to read liquidity profiles.

However, I respectfully disagree with the Commission's proposal that the brief discussion of a fund's liquidity risk management program should be disclosed annually in a shareholder report. As I discussed above, I suggest remaining the aggregate liquidity profile disclosure requirement. To accomplish the Commission's intent to make investors' more informed, it is more proper to require funds to publicly disclose its aggregate liquidity profile and discuss briefly its liquidity management program at least quarterly, which is what the current rule requires. A fund's quarterly-disclosed liquidity profile and brief discussion of liquidity management program can be on Form N-PORT or on the fund's quarterly shareholder report if there is one.

A more frequent disclosure requirement would not substantially increase funds costs because the proposal still requires funds to confidentially report their classification results to the Commission. Therefore, it would not be unduly burdensome for them to continue to publicly disclose aggregate profiles. A more frequent brief discussion would also not cost a lot because it is a brief discussion which does not include details or sophisticated data only needs address the routines if the fund is currently not facing specific liquidity crisis. Further, a more frequent disclosure and discussion of the fund's strategy and operation to manage liquidity risk would reduce uninformed or delayed decisions by investors. This is especially important to short-term investors because they would need updated information to make frequent and timely investments. A more frequent reporting requirement would enable investors to have updated information if there is liquidity crisis going on.

The value of having a transparent investment environment and the costs of a liquidity crisis may not be obvious in daily routines because it is more like an insurance policy. It's an insurance policy for investors as well as the general public. Everything may seem fine and regulations may seem unnecessary until a crisis happens, which is disastrous to whole financial system. Having a more transparent financial market place would encourage funds to act more prudently rather than exploiting information asymmetry and transferring the risks of collapse to investors and the public. The Commission should remember the goal it tried to achieve by having a quarterly public disclosure requirement in the first place and take a cautious approach, pay the "insurance premiums" and protect the public from unknown liquidity risks.

Respectfully submitted,

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