

WELLINGTON MANAGEMENT COMPANY LLP  
280 Congress Street, Boston, MA 02210 USA

T +1.617.951.5000  
www.wellington.com

WELLINGTON  
MANAGEMENT

18 May 2018  
Mr. Brent J. Fields  
Secretary  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

VIA E-MAIL: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: Comments on Investment Company Liquidity Disclosure  
(File No. S7-04-18)

Dear Mr. Fields:

On behalf of Wellington Management Company LLP ("**Wellington Management**"), I am writing to express our support for the recent proposal (the "**Proposal**") by the Securities and Exchange Commission ("**SEC**" or the "**Commission**") that would amend the reporting and disclosure requirements under the mutual fund liquidity risk management framework adopted by the SEC in 2016 (the "**Liquidity Rule**"). Wellington Management, together with its affiliates, manages over \$1.05 trillion in assets globally across a wide variety of equity, fixed income and asset allocation strategies. With respect to US mutual funds and annuities, in particular, we sub-advise approximately \$540 billion across more than 200 US mutual funds, closed-end funds and variable annuities representing 37 fund families.

We appreciate the Commission's continued attention and the efforts of the Staff to address the complicated issues faced by funds in developing the compliance and risk management programs required under the Liquidity Rule. As we noted in our comments to the SEC on the original rule proposal, our primary concern with the Liquidity Rule was the potential for investor confusion caused by public disclosure of liquidity classification information. Specifically, we were concerned that reducing the complex exercise of liquidity risk management to seemingly objective classifications representing a number of days to liquidate a position could provide fund shareholders with information suggesting a false level of precision concerning liquidity.

Our experience in developing a liquidity risk classification system to meet the requirements of the Liquidity Rule has reinforced this concern. The position classifications required under the Liquidity Rule are deceptively simple, but are actually difficult to interpret correctly without knowledge of the context, methodologies and assumptions used in the classification exercise and, indeed, the specific reasoning behind the classification of each security. For example, under our framework, a position could be classified as an "illiquid investment" for several reasons, including: (i) illiquid investment type (e.g., private equity position); (ii) restrictions on transfer / trading (e.g., lockup period, closed markets); or (iii) the position is too large to sell within seven days despite an existing market. Understanding the rationale for the classification is critical for translating the liquidity classification into an accurate risk assessment. For example, inherently illiquid positions present different liquidity risks than positions classified as "illiquid investments" because of size. Thus, some funds could report higher levels of "illiquid assets" while actually being *more* liquid than funds that have a higher level of inherently illiquid positions – even when evaluated using the same methodologies and assumptions.

In addition, we have observed that the methodologies and assumptions used in the classification process can have an outsized impact on the results, with large deviations in results based on small changes to methodologies and assumptions. This is especially acute with the "reasonably anticipated transaction size" and assumptions regarding market impact and "significant changes to market value." Given the inevitable variation among the methodologies and assumptions that will be utilized by different fund complexes and advisers, we believe publicly available classification results will give investors an illusion of comparability across funds while actually providing limited, if any, comparable data. In addition, public disclosure of liquidity classifications would create incentives for funds to adopt assumptions and methodologies that provide results indicating more favorable liquidity. This concern is heightened if and when third-parties invariably decide to analyze and streamline liquidity information into single metrics such as liquidity "star" ratings.

Replacing the public disclosure of liquidity classifications with a narrative disclosure in funds' annual reports, as described in the Proposal, eliminates these risks. We believe shareholders will derive significant insights and benefit from the proposed narrative format. In a narrative, funds will be able to provide shareholders with information on a particular fund's liquidity profile while also providing the context to evaluate that information. This narrative discussion would not, therefore, present the same risks of confusion as the disclosure of putatively objective classification results that in fact represent varying methodologies and assumptions. Further, since a narrative is necessarily subjective, it does not lend itself to the temptation to perform potentially misleading side-by-side numerical comparisons. As a result, we believe the changes offered in the Proposal will allow funds to provide shareholders with more accurate information about funds' liquidity profiles, with significantly less potential for investor confusion.

The changes described in the Proposal will significantly address some of our most pressing concerns; however, we also support the suggestion of the Investment Company Institute ("ICI") to adopt the principles-based approach to liquidity risk management recommended by the US Treasury. We agree with the ICI that the advantages to the Treasury's approach would be considerable, including allowing funds the latitude to tailor their liquidity risk management programs to their own liquidity risk exposure.

\* \* \*

We appreciate the continued attention of the Commission and Staff on the Liquidity Rule. If you have any questions about our comments or would like any additional information, please contact me or Lance Dial at the number above.

Very truly yours,



Cynthia M. Clarke  
General Counsel  
Wellington Management Company LLP

CC: The Honorable Jay Clayton, Chairman  
The Honorable Robert J. Jackson, Jr.  
The Honorable Hester M. Peirce, Commissioner  
The Honorable Michael S. Piwowar, Commissioner  
The Honorable Kara M. Stein, Commissioner

Dalia Blass, Director, Division of Investment Management