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10 August 2015

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Investment Company Reporting Modernization (Release Nos. 33-9776; 34-75002; IC-31610; File No. S7-08-15)

Dear Mr. Fields:

CFA Institute[1] appreciates the opportunity to comment on the Securities and Exchange Commission's (SEC) proposal to modernize the reporting and disclosure of information by registered investment companies, including mutual funds and ETFs (collectively, funds). CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

Executive Summary

We support the proposal's requirements for additional information about aspects of investment companies as necessary to not only update an outmoded information collection system, but also to provide information with which to assess potential risks across the asset management industry. We believe that much of the new and expanded information will provide the SEC with important tools with which to assess risks in individual funds, as well as across fund groups, monitor industry trends, contribute to examination and enforcement efforts, and help inform its public policy and rulemaking agenda. We agree that requiring information to be reported through a structured data format in new Forms N-PORT and N-CEN will allow better collection and analysis of that information.

We particularly support requirements that investment companies report a broader array of information about securities lending activities and the use of derivatives. We believe that

[1] CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, advisers, portfolio managers, and other investment professionals in 151 countries, of more than 125,500 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories.

receiving better information in these two areas will allow the SEC tools with which to better assess their potential systemic risk implications.

We also support proposed new Rule 30e-3 that would give investment companies the option to provide shareholder through postings on their Websites. This is a needed move to modernize the reporting system and should be a positive development for investors.

Discussion

The SEC is proposing new reporting requirements by investment companies that would require information in a “structured data format” aimed at allowing the SEC to better assess and monitor risks in and across the asset management industry.

As background for these proposals, the proposal notes that the industry has changed dramatically, both in terms of volume and the nature of products. New structures such as ETFs and funds, new strategies, and a much greater use of derivatives, all add complexity and may introduce new risk. As current methods and forms for tracking information on funds lag behind these developments, the SEC is proposing not only to collect information from funds about activities previously un-reported or under-reported, but also a new format for reporting such data.

Through the proposed changes, the SEC hopes to provide a greater transparency of fund portfolios and practices, more effectively use technology in providing information to the SEC and investors, and reduce reporting burdens on funds where current duplicative or unnecessary requirements exist. The new information will also help the Commission assess risks in individual funds, as well as across fund groups, monitor industry trends, enhance examination and enforcement efforts, and improve formulation of new regulatory policy and rulemakings.

In addition to the specific areas of information that funds would have to provide, the SEC believes having this information in a structured data format would allow users to “better collect and analyze portfolio holdings” in lieu of the current format that requires extensive manual reformatting. The structured data approach is being proposed for both information on funds’ portfolios and in reporting census information.

Moreover, the SEC seeks to address issues raised by responders to a FSOC notice requesting comment on the asset management industry, particularly comments on areas that could benefit from better data. These include more information about the use of derivatives, and securities lending activities, as well as the use of legal entity identifiers (LEIs).

We believe that certain groups have been quick to assume that certain aspects of the asset management industry are systemically risky. Yet, as many have recognized, the empirical data to prove or disprove this has been lacking in specific sectors. Information on certain practices by investment management companies has been scarce, leading SEC leadership to state its intention to propose additional reporting regulations for funds late in 2014. We find this a responsible response and believe that certain aspects of the proposed reporting requirements will provide the information needed to make more reasoned assessments of risk. We believe that the proposal’s requirements with respect to two particular practices by investment management companies meet this objective.

Securities Lending

We believe that information on securities lending agreements is insufficient in today's reporting regime and that they deserve scrutiny in light of their involvement in the latest financial crises. While we do not believe they rise to the level of posing systemic risk, additional information from funds about these practices may alert regulators to issues that need addressing.

Securities lending arrangements may pose some risks when institutional investors lend to investors that are seeking to short a liquid security, expecting that security's price to decline. Under certain circumstances, those borrowing securities to short may be "squeezed" by long investors and may bid up the price when repurchasing the securities. Such matters generally only affect the "squeezed" securities borrowers. However, when cash collateral received by securities lenders is then reinvested in non-cash instruments, and particularly when leverage is involved, it could create liquidity issues for the institutions elsewhere in the chain of transactions.

Those investors may terminate borrowings and demand repayment of collateral from securities lenders. When the securities lenders have invested cash collateral in long-term investment strategies for the collateral (especially for liquidity transformation), there may be a liquidity or maturity disconnect; liquidity can be squeezed and the broader markets affected.

We believe that neither of these cases of traditional securities lending arrangements pose a systemic threat. However, given that such liquidity issues may exacerbate market turbulence from strategies not yet known, we understand the SEC's interest in receiving more information of the fund industry's involvement in securities lending. At the very least, we believe it will enhance the SEC's learning about industry practices, including not just the volume of securities lending activity, but the term of lending and redemption cycles, the manner in which collateral received is invested, and the types of counterparties involved. We also believe it should help fashion examinations that are more sensitive to ferreting out risky practices, and help develop a deeper understanding of these practices for industry-wide monitoring.

To the degree that compliance costs by the fund industry do not significantly overwhelm the benefit of the information to be reported, we support the aspects of the proposal specifically aimed at securing more information on this practice.

Use of Derivatives

We believe that fund use of derivatives is an area that clearly warrants additional reporting and monitoring. While the use of derivatives alone does not in itself pose systemic risks, when combined with other market factors, such instruments have the potential to increase opaque leverage and counterparty exposure that can lead to losses and increased detrimental effects on the greater marketplace.

We believe that balance sheet leverage, off-balance sheet leverage, as well as the use of derivatives that are not centrally cleared, are all areas that raise concerns and that deserve more scrutiny. Relationships and interconnectedness with counterparties are also relevant to understanding the totality of the fund's use of derivatives. We strongly support aspects of the proposal that will require funds to provide these types of information. We believe this transparency will aid the SEC in its examination risk monitoring efforts by shedding light into an area that lacks enough public exposure.

Specific Comments

The proposal seeks to change the current reporting requirements through two new forms—Form N-PORT and Form N-CEN. Both forms would use structured data reporting (through XML format) to allow better use of the information. The proposal also would make changes to Regulation S-X to provide more information about derivatives in fund financial statements, rather than just in financial statement footnotes. Finally, the proposal would allow funds the option to post shareholder reports on their Websites, provided shareholders retain the right to request paper copies.

The SEC reasons that the information that will provided through Form N-PORT will allow it to better understand and assess the risks in a fund, as well as across funds. It also believes that risks related to liquidity, use of counterparties and leverage will be helpful in understanding risks. And all of the information will help in SEC examinations, rulemaking, and enforcement.

Overall, we believe that more frequent reporting and expanded range of information contemplated by Form N-PORT is appropriate and would be helpful to the SEC in a variety of stated purposes, including examinations, formulating of public policy and monitoring of trends.[2] In particular, there are several proposed reporting categories that will provide information relating to risk categories that will help in monitoring practices that may have potential for contributing to systemic risk.

In this letter, we will limit our comments to those of a broader perspective that address both the information needs of investors and of regulatory entities seeking to monitor potentially systemic situations. In particular, we will address proposals relating to securities lending and derivatives disclosures. Consequently, we have refrained from commenting on a number of other matters of fund operations and information providing, as well as issues concerning the cost and difficulty of providing certain information, believing such questions are better answered by those entities involved in the day-to-day operation of collective investment funds.

New Form N-PORT

The proposed new Form N-PORT would require all registered management investment companies and unit investment trusts that operate as ETFs — other than money market funds[3] and small business investment companies — to electronically report on a monthly basis information on their complete portfolio holdings (portfolio-wide and position-level), as well as

[2] While information provided in a structured data format will be of little use to retail investors, certain limited information would be specifically provided in a plain text format that investors would find easy to use. Institutional investors, however, may find the data useful for conducting their own quantitative analyses.
[3] Money market funds already provide this information through Form N-MFP.

information relating to derivatives, assets and liabilities, portfolio-level metrics, securities lending, monthly returns, flow information, and certain information about each investment in a portfolio. The Form would have to be filed by 30 days after the close of each month. Information contained in the report for the third month of each quarter would be made available to the public, but not until 60 days after the fund's fiscal quarter.[4]

Under the new requirements, the entities using this Form would have to report a range of information on portfolio holdings more frequently and through the use of a structured data format, including portfolio level assets and liabilities. This category would include a fund's total assets, total liabilities and net assets, and assets invested in controlled foreign corporations (including disclosure of the underlying investments in the corporation). Liabilities would include certain borrowings, payables for investments purchased either on i) a delayed, when-delivered, or other firm-commitment basis; or ii) standby bases, and liquidations preferences. The proposal reasons that information on a fund's borrowings and obligations related to assets it has already received allows the Commission to better understand its use of financial leverage.

The Proposal would also require reporting on portfolio-level risk metrics (relating to use of debt instruments and derivative instruments that provide exposure to debt or debt instruments). These metrics would, the Proposal contends, provide a way to measure a fund's exposure to changing market conditions, including interest rates, credit spreads and asset prices through either fixed-income securities or derivative instruments. Information also would be required about fund activities, like repurchase and reverse repurchase agreements (including counterparty information) and securities lending.

Reporting on Securities Lending

Under current rules, funds provide limited reports that fail to address counterparty exposure, the extent of their securities lending activities and associated fees and revenues, and the significance of these activities to fund performance. The SEC hopes to close this reporting gap through Form N-PORT and Form N-CEN by requiring funds to provide information on counterparties, including counterparty LEIs, and the aggregate value of all fund securities on loan to them.

In particular, funds would have to report the name and LEI of each securities lending counterparty, and the aggregate value of all securities on loan to each particular counterparty. They also would have to disclose information about lent securities and the reinvestment of the collateral related to those loans at an investment-by-investment level. The Commission is interested in whether this information should be provided at the level of individual securities, as proposed, or at the portfolio level.

We recognize the interest the Commission has in tracking individual transactions, as it would help track exposures to and from specific counterparties. It also might provide insight into the extent of re-hypothecation of collateral received from securities lenders. Seeing all such transactions would theoretically help track and potentially recognize developing market-wide risks and troubled institutions. Despite these benefits, we question both whether the sweeping

[4] Staff reasons that by delaying the public release of information and then restricting the information to the fund's third month in its fiscal quarter will deter tendencies for front running or free riding on a fund's investment research.

collection of bilateral transaction trade data is needed, and whether it is advisable under current circumstances.

With regard to the usefulness of such data, the Commission no doubt could obtain the information it needs on individual transactions for enforcement purposes on an as-needed basis through traditional court and administrative proceedings. Collection of data on every securities loan and repo transaction would, we fear, put even greater strains on Commission staff and resources at a time when such resources already are overburdened by existing legislative mandates and funding provisions. Consequently, we believe a portfolio-based approach, including one that reports on counterparties to whom funds have their greatest exposures — either in terms of ranking or based on a percentage of fund NAV exposed — would provide information to enable the SEC to adequately monitor potential threats without creating unnecessary burdens either on the reporting funds or the Commission's own internal resources.

Reporting on Derivatives

Under the proposal, funds would have to report monthly net realized gains or losses, and net changes in unrealized appreciation or depreciation relating to derivatives in certain categories: commodity contracts, credit contracts, equity contracts, foreign exchange contracts, interest rate contracts, and other derivatives contracts.[5] The SEC hopes that by requiring this information, it will gain insight into how funds use of derivatives relates to investment strategies and it returns.

The proposal notes that inconsistent reporting on derivatives has prevented the SEC and investors from fully understanding their use in investments and the resulting exposures. To that end, the new reporting requirements for derivatives would require information on the characteristics and terms of derivative contracts that would lead to a better understanding of the "payoff profile" of a fund's investment in those contracts and the exposures they create.

For derivatives that have underlying assets that are indices or part of a "custom basket" of securities, funds would have to identify the indexes, and whether the components of the indexes are publicly available on a website and are updated at least quarterly. If they are not, funds would have to provide narrative descriptions of the indexes, and whether the notional amount of the relevant derivative is 1% or less of the funds' NAVs. If they exceed this threshold, a name, identifier, number of shares or notional amount or contract value, and unrealized appreciation/depreciation of every component in the index would have to be reported. The SEC reasons that this information is important for it, investors and other users to have on fund exposures, whether or not the fund directly holds investments in those assets, or they have exposures through derivatives contracts.

If using options, funds would have to report on the "delta" ("the ratio of the change in the value of the option to the change in the value of the reference instrument"). Given that funds may use options to obtain leverage in an underlying reference asset, the SEC believes that the public should have ways to measure the effect that a change in an asset's price would have on the funds that hold such options.

[5] For comparability purposes, funds would also be required to report net realized gain or loss and net change in in realized appreciation or depreciation for their non-derivatives based investments, also on a monthly basis.

Funds also would be required to report on each derivatives contract, including the category of derivative used and the name and LEI of counterparties. Funds that hold derivatives that are not in the specific categories listed in the Form would then have to describe them in a way that would allow an understanding of the investments, including currency payment terms, payment rates, call or put features, exercise prices and information on the reference instruments. By taking this approach, the SEC reasons that the rule will accommodate new types of derivative products that will emerge.

As part of the return information required under the proposal, funds would have to report monthly net realized gains/losses and net change in unrealized appreciation/depreciation that is attributable to derivatives for commodity, credit, equity, foreign exchange, interest rate and other derivatives contracts, similar to what is required to be reported under FASB standards. The intent would be to shed light on how funds use derivatives as part of their investment strategies and their effect on returns.

Given the potential risks associated with certain uses of derivatives, we support the new reporting requirements. We believe that information will allow investors to better understand how their managers are investing their money while also enabling the SEC to better assess trends in and across funds and correlated risks.

Reporting on Repurchase Agreements

Under the proposal, funds also would have to provide additional information on repurchase and reverse repurchase agreement they hold, whether they are cleared through central counterparties (and name of counterparty), or over the counter. For centrally cleared transactions, the disclosure would include the name of the central counterparty. If over-the-counter, it would include the name of the counterparty and the counterparty's LEI. This reporting would include information about the principal amounts, value of collateral, repurchase rates and maturity dates. In general, the reporting requirements track those that are already in effect for money market funds that report on Form N-MFP.

Again, we understand recognize the Commission's interest in tracking data on bi-lateral repos on a transaction-by-transaction basis. And again, we question whether the sweeping collection of such bilateral transaction trade data is needed or advisable under current circumstances. Rather, we believe aggregated disclosures about these bi-lateral activities on a firm-by-firm basis will provide the information needed to assess the systemic potential of such transactions.

We do support collection of data for centrally cleared repos. The difference is that central counterparties consolidate the risk of these activities and by virtue of their activities, are systemically important.

Amendments to Regulation S-X

Proposed amendments to Regulation S-X track many of the proposed disclosures relating to derivative contracts proposed by Form N-PORT, and would require a fund to include such information in their face of the financial statements, rather than in the footnotes. The disclosure, however, would not be in an XML format, but in a format easily readable by the average investor. In order to provide more consistency and transparency in the reporting of the use of derivatives, these amendments would require new schedules for open futures contracts, open forward currency contracts, and open swap contracts. In addition, funds will be required to report on the illiquid investments.

Transmission of Shareholder Reports via Web site

As proposed through new Rule 30e-3, funds could provide shareowner reports through Website postings. To do so, funds would have to maintain other reports and information on their sites, obtain shareowner consent for the placement of these disclosures, provide notice that the reports are available, and allow shareowners to request paper copies instead.

We support this proposal to modernize the system for providing reports and believe most investors will view this as positively. We believe the proposed conditions for using this option are appropriate to accommodate those investors wishing to receive paper reports.

New Form N-CEN

The SEC considers current Form N-SAR to be outdated, both in terms of substance and format, and thus proposes to replace it with a new Form N-CEN, for reporting census-type information. Like Form N-PORT, Form N-CEN would require information to be provided in a structured data format. It would be filed annually (vs. semi-annually under current Form N-SAR).

As proposed, all registered investment companies, except face amount certificate companies, would have to file on new Form N-CEN, although certain sections of the form are dedicated to different types of registrants, with correlated requirements. While much of the substance of what is currently reported would remain the same, the new Form would seek updated information on fund investment practices, products and risks, and require that the information also be provided in a structured data XML format.

In general, registrants would have to provide new information on:

- Their LEI, public Web site, and location of books and records;[6]
- Name of the chief compliance officer, CRD number, address, and whether the COO has changed since the last filing;
- Whether during the reporting period, an open-end fund made payments to shareowners resulting from an NAV error;
- Information from management companies relating to relating to payments of dividends or distributions from the companies requiring a written statement under Rule 10a-1 (requiring statements when payments are from sources other than net income);
- Whether the fund receives financial support from affiliated entities;
- Whether the fund relied on any order from the SEC that granted exemptions from any provisions of the federal securities acts;

[6] Information about the location of books and records would not be in structured data format, so that investors would find the information easier to read.

- Whether the fund's report on internal controls revealed any material weaknesses; and
- Whether the public accountant issued an opinion other than an unqualified one.

For management investment companies (other than SBICs), new requirements for reporting information would include:

- Specific information on fund classes, including the number of classes that have been authorized, added, and deleted during the reporting period;
- Whether they have ETFs or exchanged-traded managed funds, index funds, funds whose performance is based on a multiple, the inverse, or a multiple of the inverse of a benchmark, interval funds, funds of funds, master-feeder funds, money market funds, target date funds, or underlying funds to variable annuity or variable life insurance contracts, and various information relating to these entities;
- Whether they invest in a controlled foreign corporation so that they can invest in certain types of instruments, and the name and LEI of those corporations; and
- Whether they have relied on certain Investment Company Act rules.

Securities lending. Funds would also have to report some securities lending activity information on Form N-CEN and in XML format. The proposal would require reporting of certain information that is not likely to frequently change (e.g., name of securities lending agent) on Form N-CEN that is filed annually, rather than on Form N-PORT. As proposed, funds would have to report on the fees associated with their lending activities, as well as on the relationships that the management companies have with certain service providers related to their investing activities. This would include information about "the commonality of borrower default," and about arrangements that indemnify a fund against default by a borrower, and whether lending agents or someone else indemnify the funds against borrower default, all in order to better inform the SEC about potential counterparty risks.

To that end, funds would have to provide information about their agents and cash collateral managers, including whether they are first-or second –tier affiliates of their investment management companies, as a means of disclosing possible conflicts of interest and risks. They also would have to disclose whether they have made certain types of payments (e.g., revenue and non-revenue sharing splits, cash collateral reinvestment fees), in order to allow the SEC and others to better understand the types of fees paid for securities-lending activities.

We agree that information proposed to be provided about securities lending activities is important, while believing an annual reporting requirement is appropriate. We support the types of securities lending information reported on Form N-CEN, and believe it will help supplement what will be that provided through Form N-PORT.

Conclusion

We support the SEC's proposal that would provide the SEC with more information on fund products, practices and providers, particularly as they relate to securities lending and derivatives. Should you have any questions about our positions, please do not hesitate to contact Kurt N.

Schacht, CFA at kurt.schacht@cfainstitute.org, 212.756.7728 or Linda Rittenhouse at linda.rittenhouse@cfainstitute.org, 434.951.5333.

Sincerely,

/s/ Kurt N. Schacht

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/s/ Linda L. Rittenhouse

Linda L. Rittenhouse
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