



OppenheimerFunds[®]

The Right Way
to Invest

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August 10, 2015

Via Electronic Mail (rule-comments@sec.gov)

Mr. Brent J. Fields, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File No. S7-08-15: Investment Company Reporting Modernization

Dear Mr. Fields:

OppenheimerFunds, Inc. (“OppenheimerFunds”)¹ appreciates the opportunity to comment on the Securities & Exchange Commission (“SEC” or “Commission”) proposal to revise the reporting and disclosure by registered investment companies (“funds”) as described in the above-referenced release (the “Release”).²

OppenheimerFunds supports the Commission’s efforts to update fund reporting. However, expanding fund reporting in the manner proposed raises important issues that the Commission must consider regarding the security of the data being collected, the appropriateness of making certain information public, and the deadlines under which funds would have to file this information. Our specific comments follow.

¹ OppenheimerFunds is a registered investment adviser, providing investment management and transfer agent services to nearly 100 registered investment companies. OppenheimerFunds has been in the investment advisory business since 1960, and with its subsidiaries, has more than \$230 billion in assets under management.

² See 80 Fed. Reg. 33590 (June 12, 2015), Release 33-9776 (May 20, 2015).

A. Confidentiality of Portfolio Holdings

The SEC does not address how it intends to maintain the security of the data it will be collecting from the fund industry. A successful cyberattack would cause major financial loss for fund shareholders and fund advisers and great harm to the SEC itself and the overall capital markets. A data breach will expose funds to predatory trading practices and negatively impact shareholders. Disclosure of information regarding fund trades can lead to front-running or free-riding of those trades, adversely impacting the price of the stock that the fund is buying or selling. The valuable repository of structured data created by the SEC's storage of immense volumes of monthly fund portfolio holdings data would almost certainly attract cyberattacks from third parties looking to profit from predatory trading. We note with concern the security deficiencies identified in the SEC's last GAO information security audit, and the 2014 audit by the SEC's Inspector General.

Given these concerns, the SEC's monthly collection of fund portfolio holdings should commence only after independent testing and verification of the security of this information is completed by means of a third-party review.

B. Information Filed on Form N-PORT

We support the Commission's intention not to make public information filed on Form N-PORT for the first two months of the fund's fiscal quarter. We also support the Commission's proposal to delay making public for 60 days the information that would be reported for the third month of the quarter. However, we have identified a discrete number of information items proposed on Form N-PORT where public disclosure, at any time, would be confusing to investors or potentially harm funds and advisers. We also have identified information that is sensitive or proprietary.

The Commission specifically should keep non-public *risk metrics, illiquidity determinations, country of risk determinations, derivatives payment terms (including financing rates), and securities lending fees and revenue sharing splits*. The risk metric information requested is complex and its calculation depends on a number of subjective assumptions. Therefore, in many cases this information is easily subject to misinterpretation if posted publicly. Derivatives payment terms and securities lending fees and revenue sharing splits are sensitive and proprietary information such that, if disclosed, it might harm a fund's ability to negotiate favorable terms on behalf of its shareholders and so should not be shared with the public. Illiquidity determinations and determinations of country of risk require considered judgment, and different firms reasonably can and often do arrive at different conclusions. Public disclosure likely will stifle today's robust processes, instead of incenting firms to seek homogenized determinations from third party firms. We also question whether homogenized determinations would lead to better outcomes for shareholders. On the contrary, a more likely result would be to stifle a fund's ability to negotiate favorable terms. For these reasons, public disclosure of these specific information items is neither necessary nor appropriate in the public interest or for the protection of investors. To achieve keeping this information non-public, we recommend that these items be included either on Part D of Form N-PORT, which is proposed to be non-public, or as an additional non-public Schedule to the Form.

C. Filing Deadlines

As proposed, funds will have 30 days from each month-end to obtain Form N-PORT information, convert it to a form that is accepted by the Commission, review and file it. Funds would have 60 days from each fiscal year-end to obtain, review and file Form N-CEN information. Funds would also have an initial 18-month compliance period for Forms N-PORT and N-CEN, though smaller firms would have 30 months to file their initial Form N-PORT. In addition, funds would have an initial eight-month compliance period for changes made in response to amended Regulation S-X.

The proposed compliance dates simply do not provide sufficient time for funds to engage in the multi-step process necessary to meet the very significant new filing responsibilities. The information requested must be compiled from and validated by different parts of a fund complex or, in many cases, third-party providers. Funds also must convert information that is typically maintained on a “T+1” basis to a “T+0” basis consistent with U.S. generally accepted accounting principles (“GAAP”). Funds will need to develop more efficient means of converting certain information than is available now, such as risk metric information, into a structured format. Converting the information to Extensible Markup Language (“XML”) format will take many days each month.

We therefore recommend that the Commission allow funds to file quarterly within 45 days after the end of the period, on a T+1 basis. Funds should submit Form N-CEN filings within 75 days after the end of the period. We also request that the Regulation S-X compliant portfolio holdings schedules that are attached to Form N-PORT at the end of the first and third fiscal quarters be permitted to be attached at any time prior to the sixtieth day after the end of the reporting month, consistent with the filing deadline for current Form N-Q. We further request a 30-month compliance period as the bare minimum necessary for filing the new forms for all funds, as well as an 18-month compliance period for the Regulation S-X amendments.

D. Other Recommendations Regarding Form N-PORT and Regulation S-X

We summarize other comments, concerns and recommendations regarding Form N-PORT and Regulation S-X below.

1. Form N-PORT

- *Modify Risk Metric Standards.* The Commission should modify its proposed risk metric standards to require funds to report duration and spread duration at a single risk-free rate; employ a *de minimis* threshold of one percent of a foreign currency’s contribution to total duration before any risk metric information about that currency is required to be reported; and define “investment grade” consistent with conventional definitions of that term and

without reference to liquidity. We recommend defining “investment grade” as “an investment that is of high quality and subject to no greater than moderate credit risk.”

- *Increase Risk Metric Threshold.* The Commission should increase the risk metric reporting threshold to 25% of a fund’s net asset value (“NAV”) determined over a three-month period. These risk metrics should be consistent with the SEC’s threshold for prospectus disclosure of industry concentration, which uses a 25% threshold.
- *Limit Securities Lending Disclosure To Top Five Counterparties.* The Commission only should require funds to disclose information about the top five securities lending counterparties, and no such disclosure should be required if a fund’s outstanding securities loans do not exceed 1% of its net assets at any time during the fiscal quarter. This would be consistent with Form PF, which requires disclosure of exposure to the five counterparties to which a private fund has the greatest mark-to-market counterparty exposure. The cost to the funds of providing these reports is not justified where there is no material exposure to securities lending counterparties. We are also concerned that the disclosure of this limited information related to a fund’s securities lending activities is subject to misinterpretation by both regulators and the public.
- *Require Disclosure Of Derivatives Gain/Loss Information By Contract Type.* The Commission should require disclosure of derivatives gain/loss information by contract type. This would be consistent with how these investments are categorized under Regulation S-X.
- *Revise The Disclosure Requirement For Derivatives Referencing Non-Public Indices Or Custom Baskets.* The Commission should require funds using derivatives that are based on non-public indices or custom baskets to only show the top 50 components and components that represent more than one percent of the index, based on net (not on notional) value of the derivatives. Requiring funds to list all components (which exceeds 2,000 components for certain non-public indices) would overwhelm investors and could overstate the relative importance of the derivative.
- *Provide A Reasonable Belief Standard For Third-Party Legal Entity Identifiers (“LEIs”).* The Commission should permit funds to provide third-party LEI information based on their reasonable belief that the information is accurate. Funds do not have control or transparency regarding the LEIs of third parties such as counterparties.

- *Explicitly State That Funds May Make And Rely On Reasonable Assumptions.* The Commission should explicitly state in any adopting release for the forms that funds may make and rely on reasonable judgments and assumptions in providing responses to Forms N-PORT and N-CEN. This acknowledges that responses to several items in these forms are subjective.

2. Regulation S-X

- *Modify Written Open Option Contracts And Open Swap Contracts Disclosure.* The Commission should modify its option and contracts disclosure to omit written option notional amount and require derivatives based on a non-public index or custom basket to report only the 50 largest issues and the components that exceed one percent of the index. The exercise price component of an option contract makes the notional amount less relevant and the methodology to report it, open to interpretation.
- *Provide Holdings By Country Or Geographic Region And By Industry.* The Commission should require funds to depict portfolio holdings by country or geographic region and by industry. The Proposal to require an exhaustive list of securities by type, industry, and geographic region would add considerable length to the statement of investments and make it more difficult to comprehend.
- *Omit Illiquidity Determinations And Federal Income Tax Basis Information.* The Commission should omit the requirements (i) to report illiquidity determinations and (ii) to disclose federal income tax basis information for securities and derivatives. Liquidity determinations are subjective, and tax-basis information is unnecessary in light of GAAP-required disclosure of tax-basis components of dividends and distributions.
- *Modify the Statement of Operations.* The Commission should modify the Statement of Operations to remove disclosure regarding *de minimis* income, eliminate the written options schedule, and incorporate the proposed derivative schedules into funds' financial statements rather than in the notes to the financial statements. The written option schedule is unnecessary in light of disclosures required by FASB.

E. Allow Shareholder Reports and Prospectuses to be Provided Electronically to Fund Shareholders

We support proposed Rule 30e-3, which would permit funds to make shareholder reports available on their websites. Funds and their shareholders (and the environment) would benefit further if the SEC also allowed funds to make available on their websites summary and statutory prospectuses (hereinafter referred to as "prospectuses") and other shareholder notices with respect to shareholders expressing a preference for that manner of viewing rather than continuing to provide them print copies. In light of the

significant cost savings to fund shareholders that will be achieved simply by catering to investor preferences, we encourage the Commission to expeditiously move towards an implied consent framework for electronic delivery of prospectuses and other shareholder notices as well. Shareholders who view this information online often have the advantage of being able to view additional information about their fund such as distributions and performance. Shareholders will maintain the ability to receive print copies if that is their preference.

We recommend that the Commission take a number of steps to facilitate the use of proposed Rule 30e-3, reduce operational burdens, increase efficiency, and provide additional cost savings for fund shareholders. The following recommended modifications and clarifications also would enhance consistency with existing requirements.

- *Alternatives to Postage Paid Reply Form Requirement.* The Commission should allow funds to provide a toll-free phone number in lieu of including a pre-addressed, postage paid reply form in every notice.
- *Permit Other Important Accompanying Materials; Permit Annual Notices.* The Commission should permit Initial Statements and Notices to be accompanied by other important account materials, such as new account welcome kits, account statements, and dividend checks. The notice to shareholders who consent to electronic delivery should be permitted within 90 (rather than 60) days of the close of the fiscal period to which the report relates, to facilitate such combined mailings and thereby reduce fund costs. In addition, the Commission should permit funds to provide a shareholder with Initial Statements and Notices from all affiliated funds with the same fiscal year-end in a single mailing, and the Notices should not have to be repeated more frequently than annually. Otherwise, many investors could be inundated with separate initial statements for each fund they own, and the funds will lose much of the potential cost savings that could be achieved by the proposed rule change.
- *Clarify The Role Of Intermediaries.* The Commission should make clear that financial intermediaries would be able to fulfill obligations under Rule 30e-3 on behalf of funds, and should address the responsibility of intermediaries to assist funds in seeking the consent of beneficial owners to electronic delivery. The SEC's Division of Investment Management should coordinate with the Division of Trading and Markets to make the necessary amendments to rules under the Securities Exchange Act of 1934 that would provide the coordinated application of proposed Rule 30e-3 among funds, brokers and other financial intermediaries.
- *Permit Initial Statement and Notice To Include Option For Affirmative Consent To E-Delivery.* The Commission should allow funds to add information to the Initial Statement and Notice giving shareholders the option to affirmatively consent to e-delivery.

- *Permit “Householding” Of Initial Statement.* The Commission should allow funds to “household” the Initial Statement in addition to the Notice.
- *Allow Consolidated Consent to Cover Multiple Funds.* The Commission should permit shareholders’ implied consent to cover all series and funds in which they are invested in any single fund complex; and permit shareholders’ implied consent to cover all funds held through a single intermediary. Shareholders’ implied consent should be permitted to carry through to any new investments in that fund complex or through that intermediary.
- *Retain Existing E-Delivery Guidance.* The Commission should retain existing Commission guidance that permits funds to deliver shareholder reports by email to shareholders who affirmatively consent to e-delivery.
- *Adopt a Safe Harbor Provision.* The Commission should allow reliance on proposed Rule 30e-3 even by a fund that did not meet the posting requirements of the rule for a temporary period, due to technical difficulties.

We appreciate the Commission’s consideration of the above comments in connection with the SEC’s proposals described in the Release. We would be pleased to discuss these comments in greater detail with the Commission and the Staff. We are also in agreement with the comments on the Proposal submitted by the Investment Company Institute (ICI) and by the Securities Industry and Financial Markets Association (SIFMA). If you have any questions or require additional information, please contact either me (at agabinet@ofiglobal.com or 212.323.5062) or Brian Hourihan (at bhourihan@ofiglobal.com or 212.323.0272).

Respectfully submitted,



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