



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

RE: File Number S7-08-15, Investment Company Reporting Modernization

Mr. Fields,

Confluence provides automated data aggregation, management and reporting solutions to the global fund industry. Our comments and perspective are substantiated by more than 20 years of experience as a technology leader and our depth of expertise in providing investor communications, regulatory reporting, and performance solutions to U.S. mutual fund asset managers and service providers.

We greatly appreciate the opportunity to provide comment on the Investment Company Reporting Modernization Proposal. To ensure that the Proposal maximizes the benefit and minimizes the cost to investors, does not limit competition, and minimizes regulatory overhead, Confluence has one recommendation related to technology modernization, two recommendations related to the elimination of redundancy, and one recommendation related to volatility statistics best practices.

#### **Technology Modernization**

*Confluence recommends the inclusion of Rule 30e-3, which does no harm to any individual investor and will serve to mitigate the cost of the benefits provided to all investors.*

Through more effective regulation and greater stability in the capital markets, Form N-PORT, Form N-CEN, and the amendments to Regulation S-X (collectively, the “Disclosures”) will provide a significant benefit to all investors. That benefit, however, is collective and qualitative – retail investors as a whole will have a better capital markets experience in a non-measurable way.

The cost of the Disclosures, on the other hand, is quantitative and specific. The Commission estimates that the on-going cost of the Disclosures will be \$442 million per year, or \$39,000 per fund<sup>1</sup>. While the cost of the Disclosures may seem small relative to the \$18 trillion in assets under management, those assets are not spread evenly. Of 867 mutual fund sponsors, the top 5 (0.6%) hold 43% of all assets, the top 10 (1.2%) hold 55% of all assets and the top 25 (2.9%) hold 74% of all assets<sup>2</sup>. For most investors, the impact will, in fact, be meaningful.

Investors will feel that impact through higher expense ratios and therefore lower returns. The cost of the Disclosures are the same without regard to fund size, meaning that investors in smaller funds will see a greater impact to their returns. The disproportionate impact to smaller funds will put those funds at a competitive disadvantage, threatening a further concentration of assets into larger funds and limiting investor choices.



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While some implementation cost exists, proposed Rule 30e-3 has no on-going quantitative or qualitative cost. Those investors who need or would like to continue to receive physical mailings will still have a non-intrusive way to do so. At no point will any investor be forced to accept a delivery medium unsuitable to their personal circumstances.

By changing the default, Rule 30e-3 will result in a greater percentage of electronic delivery, which in turn will lower fund expenses, lower fund expense ratios, and generate higher returns, a benefit to all investors, both those comfortable with electronic delivery and those who require continued physical delivery.

As per the 2015 ICI Fact Book, there are 53 million households each owning on average four mutual funds<sup>2</sup>, or potentially 424 million units printed and mailed each year. Based on information from a 2013 Beacon study on e-delivery in the asset management industry<sup>3</sup>, it costs between \$13 and \$18 dollars to print and mail each unit. According to an analysis by Broadridge<sup>4</sup> on the impact of a similar rule for proxies, the savings across the entire securities market was about \$320 million in 2014. The Commission estimates that the savings reaped by investors would be \$105 million as a direct result of Rule 30e-3<sup>1</sup>. In essence, Rule 30e-3 provides a means to offset a substantial portion of the cost of the Disclosures, if not the entire cost. As noted above, for most funds these cost reductions will be meaningful.

Using modern technology to lower fund costs through electronic delivery while still allowing investors to continue to receive physical copies of reports upon request strikes an excellent balance between ensuring the ready availability of fund disclosures to all investors while allowing funds to take advantage of technology to minimize fund costs. In general, using electronic reporting to reduce the cost of investment is consistent with the Commission's practical and aspirational goals. In the specific case of this proposal, such cost minimization is critical to pay, in part or in whole, for the accompanying Disclosures.

### **Elimination of Redundancy**

*Confluence recommends changing Form N-PORT Items B5 and B6 to a single month disclosure.*

Disclosing three months of data in monthly Form N-PORT filings for Items B5 and B6 will increase the cost of compliance paid by investors through higher fund expenses. Such a disclosure is more costly to automate and requires more time and effort to review than a single month disclosure.

The fund returns shown in Item B5 are widely available to investors via the self-service web sites of individual fund families and via RIA's or self-service third party websites for comparisons between fund families<sup>5</sup>. It is unlikely that an investor would find machine readable XML files to be a more convenient source of comparative fund return information than a human readable, filterable, searchable web site.

I can find no direct value to investors from the disclosure of the monthly, machine readable flow data found in Item B6.



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As the Commission will load machine readable data into its databases for analysis, there is no value in including information in the current filing that is merely the duplication of information provided by the previous two filings.

Including Items B5 and B6 as proposed may be valuable to certain portions of the public outside of investors for the purposes of research and analysis. However, since the cost of providing such disclosure is incremental to investors, there should be some demonstration of direct or indirect value to those investors to compensate for that cost.

Eliminating the redundancy included in Items B5 and B6 as proposed will not negatively impact investors, the Commission or the objectives of the proposal and will benefit investors by reducing the cost of compliance.

*Confluence recommends that the Commission consider consistency between Form N-PORT and Form PF.*

Form PF and Form N-PORT serve the same purpose for two different types of similar investment products, the reporting of portfolio information for long term investments to be used in the evaluation of systemic risk. As most asset managers offer a wide variety of investment products, and administrators likewise service a wide variety of investment products, there is a strong likelihood that the need to prepare and file Form N-PORT and Form PF will overlap. The greater the similarity in the forms, the more the process used to prepare one form can be reused to prepare the other.

In addition, as with the modifications to Form PF that were included in the July 2014 money market reform, to “correspond the reporting as much as possible to the amendments we are making to Form N-MFP”<sup>6</sup>, it is likely that in the future the Commission will make the two forms consistent due to the similarities noted above.

By making these filings consistent in the initial rule, the Commission will minimize future rework and allow for higher scale processing, lowering both the near and long term regulatory cost to underlying investors without impacting the effectiveness or use of the Disclosures.

### **Volatility Statistics Best Practices**

*Confluence recommends the use of weekly periodicity in the calculation of Tracking Error, Form N-CEN Items 27.b.i and 27.b.ii.*

Daily periodicity assumes a Brownian process involving uncorrelated noise, which does not match the circumstances of index returns. The use of daily periodicity to calculate Tracking Error will show excess volatility, providing the Commission and investors with a skewed picture of Tracking Error<sup>7</sup>.



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### Conclusion

To ensure that the Final Rule delivers the Commission's practical and aspirational goals around technology modernization and data collection in the most efficient way possible both for this proposal and in general, Confluence recommends:

1. The inclusion of Rule 30e-3
2. Changing Form N-PORT Items B5 and B6 to a single month disclosure
3. Consistency between Form N-PORT and Form PF
4. The use of weekly periodicity in the calculation of Tracking Error, Form N-CEN Items 27.b.i and 27.b.ii

Thank you for allowing us share our input and expert opinion. If you have any questions, or if we may be of any assistance during your review of these recommendations, please contact me at (412) 697-4268.

Sincerely,

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Market Manager, North America  
Confluence Technologies, Inc.

<sup>1</sup> SEC Proposed Rule. *Investment Company Reporting Modernization*. File No. S7-08-15. Section IV. May 20, 2015.

<sup>2</sup>Investment Company Institute. *2015 Investment Company Fact Book*. Retrieved from August 10, 2015, [http://www.ici.org/pdf/2015\\_factbook.pdf](http://www.ici.org/pdf/2015_factbook.pdf).

<sup>3</sup>Beacon Strategies. *Closing the E-Delivery Gap*. 2013. Retrieved from August 10, 2015. <https://www.bnymellon.com/global-assets/pdf/closing-the-e-delivery-gap.pdf>.

<sup>4</sup> Broadridge. *Analysis of Distribution and Voting Trends Fiscal Year Ending June 30, 2014*. 2014. Retrieved from August 10, 2015. <http://media.broadridge.com/documents/Broadridge-Distribution-and-Voting-Trends-2014.pdf>.

<sup>5</sup>Mutual Fund Quotes & Research Tool. (n.d.). *Charles Schwab*. Retrieved from August 10, 2015, [http://www.schwab.com/public/schwab/investing/investment\\_help/investment\\_research/mutual\\_fund\\_research/mutual\\_funds.html?path=%2FProspect%2FResearch%2Fmutualfunds%2Foverview%2Fscreener.asp%3Fsymbol%3Dundefined](http://www.schwab.com/public/schwab/investing/investment_help/investment_research/mutual_fund_research/mutual_funds.html?path=%2FProspect%2FResearch%2Fmutualfunds%2Foverview%2Fscreener.asp%3Fsymbol%3Dundefined).

<sup>6</sup> SEC Final Rule. *Money Market Fund Reform; Amendments to Form PF*. File No. S7-03-13. Section III.H. July 23, 2013.

<sup>7</sup> The mystery of volatility estimates from daily versus monthly returns. November 8, 2011. *Portfolio Probe*. Retrieved from August 10, 2015, <http://www.portfolioprobe.com/2011/11/08/the-mystery-of-volatility-estimates-from-daily-versus-monthly-returns/>.