



Wells Fargo Funds Management, LLC
525 Market Street, 12th Floor
San Francisco, CA 94105

August 11, 2015

Submitted Electronically

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

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

Dear Mr. Fields:

I. Introduction

On behalf of Wells Fargo & Company and its subsidiaries, Wells Fargo Funds Management, LLC appreciates the opportunity to comment on the proposed new rules and forms as well as amendments to existing rules and forms relating to the reporting and disclosure of information by registered investment companies and registered investment advisers issued by the Securities and Exchange Commission (“Commission”) on May 20, 2015 (“Proposals”).¹

Subsidiaries of Wells Fargo & Company advise and distribute the *Wells Fargo Advantage Funds*[®]. As of June 30, 2015, the *Wells Fargo Advantage Funds* had a total of approximately \$228 billion in assets under management across a broad spectrum of investments. Our fund family offers a total of 135 separate series of funds.

In general, we support the Commission’s proposals to enhance existing filings and disclosures, introduce new forms and generally modernize both the delivery of information to the Commission and the delivery of information to mutual fund shareholders. The investment company Proposals would enhance the data provided by mutual funds in the requirement for the proposed new portfolio reporting form (Form N-PORT) and the new annual census-type reporting form (Form N-CEN). The Proposals would also require enhanced and standardized disclosures in financial statements, and would permit mutual funds to provide shareholder

¹ Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) and Amendments to Form ADV and Investment Advisers Act Rules Release No. IA-4091 (May 20, 2015).

reports by making them accessible on a website in lieu of mailing. As described below, however, we believe that certain revisions to the mutual fund Proposals are called for in order for the new reporting requirements to best serve the interests of fund shareholders.

We are also generally in agreement with the proposed reporting changes for investment advisers. This portion of the Proposals calls for amendments to the investment adviser registration and reporting form (Form ADV) requiring investment advisers to provide additional information to both the Commission and to clients in an effort to enhance understanding and assessment of the risk profile of individual advisers and the industry as a whole. In addition, the proposed amendments to Investment Advisers Act Rule 204-2 would require advisers to maintain records of performance calculations and communications related to performance. As described in more detail below, we suggest that any Form ADV reporting for specific security types such as derivatives be done using a methodology consistent with Form N-PORT.

II. Discussion

a. Proposed Form N-PORT

We support the introduction of the new Form N-PORT. As discussed further below, we believe that the enhanced disclosure requirements in the Proposals represent appropriate valuable information for the Commission to have in order to assess trends in risks, for example, across the mutual fund industry. While we are generally supportive of the Proposals, we do believe that certain aspects of proposed new reporting, including timing, frequency and some of the portfolio level characteristics either need reconsideration or additional detail.

i. Timing and Frequency of Filing.

Mutual funds would be required to report information on Form N-PORT monthly on a 30-day lag, with information reported for the first and third fiscal quarters made public in 60 days. While we appreciate the desire for more frequent filings than currently required for mutual funds, we believe that the amount of information and the increased level of detail required by the proposed new Form N-PORT will create a number of challenges for mutual funds, as described more fully below, and suggest a 45-day lag on the filing requirement, if based on a T+0 measure applied for setting the reporting period. A 45-day filing requirement would provide a more reasonable timeframe for the information to be gathered and filed. For larger fund families, preparing monthly filings for all funds in the complex will increase the risk of error because of a large amount of work to be processed in an unreasonably short amount of time. Utilizing a T+0 measure would be consistent with current filing requirements for preparation of both annual and semi-annual reports to shareholders.

ii. Portfolio Level Risk Metrics.

New Form N-PORT would require portfolio level risk metrics reporting in an effort to monitor trends in the mutual fund industry. Included in these enhanced reporting requirements are quantitative measurements of certain risks associated with specific types of securities, such as debt securities. For mutual funds that invest at least 20% in debt securities either directly or through derivatives representing at least 20% of a fund's notional exposure, the Commission proposes to require reporting of a portfolio level calculation of duration and spread duration across applicable maturities in the portfolio. The duration calculation, known as DV01, would measure the change in value in a fund's portfolio from a one basis point change in interest rates for each applicable key rate along the risk-free interest rate curve for each applicable currency in a fund. To measure the fund's sensitivity to changes in credit spreads, the Commission would also require that funds provide a measure of spread duration, known as SDV01, at the portfolio level for each of the same maturities as it would request for duration, aggregated by non-investment grade and investment grade exposures. The Commission proposed a 20% threshold because it believed that this would require funds that use debt and exposure to debt or interest rate changes as part of their investment strategy to provide those metrics, while providing a minimum threshold so that mutual funds that only invest in debt for cash management or other purposes unrelated to implementing their principal investment strategy would not be required to collect, calculate, or report such data.

We are in agreement with the Commission's request for risk metrics as it relates to duration and spread duration; however, we suggest that the calculation for providing such risk metrics be defined differently than proposed. The two proposed statistics, DV01 and SDV01, are widely understood and meaningful. We propose that DV01's be calculated at key rates as common and intuitive to analyze non-parallel shifts of the yield curve framework but we propose that SDV01's be calculated at a single point. SDV01's are not typically calculated at all key rates today and, given that spread changes are generally calculated as a parallel shift for an individual security, we believe that calculating at all key rates would have limited value. We would comment that it is also important to note that SDV01 measures changes in credit spreads, not changes in credit risk, and there is still not a single, widely accepted statistic that captures changes in credit risk. Addressing another key facet of this portion of proposal, we would be supportive of the proposed one basis point change in interest rates trigger for calculation of DV01.

In regard to the Commission's proposal to measure derivatives exposure on the basis of a fund's notional exposure, we think the key to reporting is to set forth clear definitions around derivatives and to outline a precise formula for consistent calculation of exposure. In order to achieve consistent reporting across funds, we recommend that the Commission clearly define the formula to be used in regard to derivatives exposure so that true comparisons amongst mutual funds can be made. Similarly, we propose that any standard definition take into account a consideration of the type of derivative and the intended use of such derivative. For example, when a derivative is being used solely for hedging purposes, a calculation other than full notional

value should be considered. We suggest tailoring the calculation by risk value so that, for example, if a fund were selling protection on a credit default swap then full notional value be used in the portfolio level calculation; but if a fund were buying protection through a credit default swap then market value could be used. In addition, we support providing such risk metrics, regardless of security type, so long as such reporting is done at the portfolio level and not at the investment level. We are in favor of the Commission's proposed threshold of 20% for purposes of triggering the enhanced reporting obligations. Lastly, we suggest moving this information to the non-public portion of the filing. While such risk metrics may be valuable to the Commission in assessing risk and spotting trends in the industry, the complexity of the information makes such information prone to misunderstanding by fund shareholders.

iii. Securities Lending.

Mutual funds would be required to report certain securities lending activity on Form N-PORT. Specifically, for each of their securities lending counterparties as of the reporting date, mutual funds would be required to provide the full name and Legal Entity Identifier of the counterparty (if any), as well as the aggregate value of all securities on loan to the counterparty (rather than at the loan level). The Proposals also include a requirement to provide similar additional information about a fund's securities lending activities on Form N-CEN and as part of the notes to funds' financial statements. Additionally, funds would be required to report on Form N-PORT, on an investment-by-investment level, information about securities on loan and the reinvestment of cash collateral received in connection with lending activity. For each investment held, the fund would be required to report: (1) whether any portion of the investment was on loan by the fund, and, if so, the value of the securities on loan; (2) whether any amount of the investment represented reinvestment of the cash collateral and, if so, the dollar amount of such reinvestment; and (3) whether any portion of the investment represented non-cash collateral received to secure loaned securities and, if so, the value of the securities representing such non-cash collateral.

We support portfolio level reporting of aggregate securities lending activity but recommend that a minimum threshold of 10% of assets on loan be used under which no reporting would be required. In reference to the questions posed by the Commission, we support reporting for the five largest securities lending counterparties a fund may have exposure to through its lending facility as opposed to reporting for all counterparties at the reporting period. We believe that this level of reporting will provide an appropriate method for the Commission to assess material counterparty risk arising through securities lending activities.

iv. Return Information.

The Proposals call for funds to provide monthly total returns on Form N-PORT for each of the preceding three months. Because only the quarter-end N-PORT filings would be made public, this level of reporting would provide shareholders with monthly return information on a quarterly basis. Although this represents additional return information over what Funds typically

provide today, we do not object to providing such information in Form N-PORT but propose that returns be shown for a rolling 12-month period as of each month end. Monthly returns are inherently short-term in nature and non-money market mutual funds are typically intended for long-term investors.

In addition, Funds would include on Form N-PORT, for each of the preceding three months, monthly net realized gain (or loss) and net change in unrealized appreciation (or depreciation) attributable to derivatives for specified categories. The stated purpose of such data is to help the Commission staff and fund shareholders to better understand how a fund is using derivatives to accomplish its investment strategy and the impact of derivatives on the fund's returns. We do not agree with including this type of return information attributable to one security type, such as derivatives, as it does not provide a valuable reference point from which to assess whether the derivatives included in a fund's portfolio have contributed to returns, particularly when derivatives are used for hedging purposes.

v. Flow Information.

Form N-PORT would require funds to separately report, for each of the preceding three months, the total net asset value ("NAV") of: (1) fund shares sold (including exchanges but excluding reinvestment of dividends and distributions); (2) fund shares sold in connection with reinvestments of dividends and distributions; and (3) fund shares redeemed or repurchased (including exchanges). We support this request so long as the Commission confirms that such information is intended to be provided at the omnibus account level.

vi. Schedule of Investments.

Form N-PORT would require information about each investment in a Fund, including: securities identifiers (if available), the amount of each investment as of the end of the reporting period, the payoff profile of the investment, indicating whether the investment is held long or short, the asset type and issuer type for the investment, country of investment or issuer, whether the investment is a restricted security, and whether the investment is an illiquid asset. Form N-PORT would also require valuation information, specifically, whether the investment is categorized by the Fund as a Level 1, Level 2, or Level 3 fair value measurement in the fair value hierarchy under U.S. Generally Accepted Accounting Principles. While we support including a Schedule of Investments in Form N-PORT, we do not support including illiquidity designations as such designations are based on multiple subjective measures and would, therefore, likely differ from fund group to fund group. In addition, we do not support disclosure of fair value hierarchy at the security level as such determinations are based upon subjective inputs and are likely to differ from fund group to fund group. We would instead propose continuing to use the same methodology for disclosure of fair value hierarchy by each class of investments categorized at each level as is currently reported in fund's shareholder reports and quarterly Form N-Q filings. We also ask the Commission to include guidance and instructions

for determining the country with the greatest concentration of risks and economic exposure in order to achieve consistent reporting across funds.

vii. Security-specific Reporting for Debt Securities, Convertible Securities, Repurchase and Reverse Repurchase Agreements and Derivatives.

Form N-PORT would require additional information for each debt security held by the fund to gain transparency into the payment flows and convertibility into equity of such investments. Funds would report the maturity date and coupon (reporting annualized rate and indicating whether fixed, floating, variable, or none), and would indicate whether the security is currently in default, whether interest payments for the security are in arrears or whether any coupon payments have been legally deferred by the issuer, as well as whether any portion of the interest is paid in kind. We support this portion of the Proposals but recommend that the Commission provide clear instructions to ensure consistent results. The Commission should consider, for example, establishing a standard for designating when a security should be deemed to be in arrears.

Additional information would be required for convertible securities, including whether the conversion is mandatory or contingent, the conversion ratio, information about the asset into which the debt is convertible, and the delta of the security. We do not believe that these represent significant data points from which to assess risk and recommend that they be eliminated.

Form N-PORT would also require additional information for each repurchase and reverse repurchase agreement held by the fund, including the identity of the counterparty, repurchase rate, whether the repurchase agreement is tri-party, and the maturity date. Form N-PORT would also require information about the collateral, including the principal amount and value of collateral, as well as the category of investments that most closely represents the collateral. We support this portion of the Proposals as long as reporting of collateral may be done on the basis of aggregate security type rather than at the individual security level.

Form N-PORT would require additional information for each derivative contract held by a fund. The fund would report identifying information including the category of derivative that most closely represents the investment (e.g., forward, future, option, etc.), and the name and Legal Entity Identifier (if any) of the counterparty. Form N-PORT would also require a fund to report terms and conditions of each derivative instrument that are important to understanding the payoff profile of the derivative. For options and warrants, including options on a derivative (e.g., swaptions), a fund would report the type (e.g., put), payoff profile (e.g., written), number of shares or principal amount of underlying reference instrument per contract, exercise price or rate, expiration date, and the unrealized appreciation or depreciation of the option or warrant. Similar to the discussion, above, of convertible bonds, Form N-PORT would require funds to report the delta of an option. We are in support of this portion of the Proposals.

Form N-PORT would require a description of the reference instrument. The Commission acknowledges that, in some instances, the reference asset is an index of securities or other assets, or a “custom basket” of assets. If the reference instrument is an index for which the components are publicly available on a website and are updated on that website no less frequently than quarterly, funds would identify the index and provide the index identifier, if any. If the index’s components are not publicly available, and the notional amount of the derivative represents 1% or less of the NAV of the fund, the fund would provide a narrative description of the index. If, however, the index’s components are not publicly available and the notional amount of the derivative represents more than 1% of the NAV of the fund, the fund would be required to provide the name, identifier, number of shares or notional amount or contract value as of the trade date, value, and unrealized appreciation or depreciation of every component in the index. We support this portion of the Proposals if the Commission requires that a fund only be required to list the top 50 components of the related index and only list components that represent more than one percent of the index. In addition, we propose that additional index reporting be triggered when a derivative represents 5% of the NAV of the fund.

In connection with this portion of the Proposals relating to additional security-specific reporting for debt securities, convertible securities, repurchase and reverse repurchase agreements and derivatives, we recommend the Commission consider a minimum threshold for exposure to each security type at 10% of a fund’s assets before reporting would be required.

b. Proposed Amendments to Regulation S-X

The Proposals call for amendments to Regulation S-X that change existing disclosures and add new disclosure requirements that correspond to the information requested in Form N-PORT. The proposed amendments to Regulation S-X would, among other things, require similar disclosures in a mutual fund’s financial statements in its shareholder reports and, as applicable, website disclosures in order to provide shareholders with clear and consistent disclosures across funds concerning investments in derivatives in a human-readable format, as opposed to the structured format of proposed Form N-PORT. The Commission is proposing amendments to Articles 6 and 12 of Regulation S-X that would: (1) require new, standardized disclosures regarding fund holdings in open futures contracts, open forward foreign currency contracts, and open swap contracts, and additional disclosures regarding fund holdings of written and purchased option contracts; (2) update the disclosures for other investments, as well as reorganize the order in which some investments are presented; and (3) amend the rules regarding the general form and content of fund financial statements. The amendments would also require prominent placement of disclosures regarding investments in derivatives in a fund’s financial statements, rather than allowing such schedules to be placed in the notes to the financial statements and would require new disclosure in the notes to the financial statements relating to a fund’s securities lending activities.

We support the proposed amendments to Regulation S-X generally but recommend a number of changes. First, we recommend that implementation be required for each fund with its

next fiscal year end following the proposed compliance date. This method of implementation would allow funds to utilize the enhanced reporting over an entire period as opposed to reporting under the new requirements for a partial period. Next, in connection with the proposal to show the holdings by country and industry, we propose to include this information in the form of a chart or table, as doing so in any other format would result in very large portfolio listings that may become cumbersome to shareholders to review thus diminishing the overall utility of such added detail. In addition, in response to the Commission's question regarding whether disclosure of a reference rate and spread for variable rate securities or end of the period interest rate should be used, we believe that supplying an end of the period interest rate is most appropriate for a shareholder. Lastly, in connection with the proposal to include additional information in a fund's financial statements regarding securities lending activity, specifically around gross income earned from securities lending, fees paid, net income and compensation to securities lending agents, we recommend including such information in a non-public section of Form N-PORT as such detail results in public disclosure of proprietary information which could cause a competitive disadvantage to mutual funds when negotiating with securities lending counterparties.

c. Option for Website Posting of Shareholder Reports

The Proposals include proposed Rule 30e-3 under the 1940 Act, permitting a Fund to satisfy its obligations to transmit shareholder reports by making the reports accessible on its website. A Fund seeking to rely on the proposed rule would be subject to conditions relating to: (1) the availability of the shareholder report and other required information on the website; (2) implied shareholder consent; (3) notice to shareholders of the availability of shareholder reports on the website; and (4) shareholder ability to request paper copies of the shareholder report or other required information. We support the Proposals to permit mutual funds to make Shareholder Reports available on a website in lieu of mailing to shareholders.

d. Proposed Form N-CEN

The Proposals would rescind Form N-SAR and adopt a new form—Form N-CEN. Proposed Form N-CEN would gather similar census information about the fund industry that funds currently report on Form N-SAR, which could be aggregated and analyzed by Commission staff to better understand industry trends, inform policy, and assist with the Commission's examination program. The Proposals outline the changes to the information gathered today through N-SAR which would be requested by Form N-CEN.

We support the introduction of the new Form N-CEN and the elimination of Form N-SAR. We support filing Form N-CEN annually based upon a fund's fiscal year end.

e. Proposed Amendments to Form ADV and Advisers Act Rules

The Proposals call for amendments to the investment adviser registration and reporting form (Form ADV) requiring investment advisers to provide additional information annually regarding separately managed accounts, including, among other things, detail regarding the use of derivatives and borrowings in separately managed accounts. In addition, the Commission proposes to amend Investment Advisers Act Rule 204-2 to require advisers to maintain records of performance calculations and communications with clients related to performance. We support these aspects of the Proposals relating to investment advisers, but suggest that the Commission apply a methodology for defining and measuring derivatives in Form ADV that is consistent with that being proposed for mutual funds on Form N-PORT. Using a common methodology for measurement between advisers and mutual funds would greatly increase the ability to compare data across these reports.

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We appreciate the opportunity to comment on the Proposals. We view them as a step forward in enhancing existing filings and disclosures, introducing new forms and generally modernize both the delivery of information to the Commission and the delivery of information to shareholders. As such, we are pleased to support certain of the Proposals that we believe constitute sensible enhancements to the reporting of data for mutual funds. We appreciate the work that the Commission has done in formulating the Proposals, and we look forward to continuing a constructive dialogue with the Commission to help enhance reporting and assist the Commission in identifying and monitoring risks in the mutual fund industry.

Very truly yours,

A handwritten signature in black ink, appearing to read 'J. DePalma', with a long horizontal flourish extending to the right.

Jeremy DePalma

Senior Vice President

Wells Fargo Funds Management, LLC