



asset management group

January 13, 2016

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

**Re: Investment Company Reporting Modernization
File No. S7-08-15
Amendments to Form ADV and Investment Advisers Act Rules
File No. S7-09-15**

Dear Mr. Fields:

The Asset Management Group (the “**AMG**”) and Asset Managers Forum (the “**AMF**”) of the Securities Industry and Financial Markets Association (“**SIFMA**”) appreciate the opportunity to provide further comments to the United States Securities and Exchange Commission (the “**Commission**” or “**SEC**”) on the Commission’s proposals to modernize and enhance the reporting and disclosure of information by investment companies and investment advisers (the “**Proposals**”).¹

The AMG is the voice for the buy side within the securities industry and broader financial markets, which serves millions of individual and institutional investors as they save for retirement, education, emergencies, and other investment needs and goals. The AMG’s members represent U.S. asset management firms whose combined assets under management exceed \$30 trillion. The clients of AMG member firms include, among others, registered investment companies, separate accounts, ERISA plans, and state and local government pension funds. The AMF, which is the operations-focused group within the AMG, brings subject matter expertise from across the buy-side operations community to bear on developing practical solutions to highly topical operational challenges.

¹ Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015), 80 Fed. Reg. 33590 (June 12, 2015) (the “**Fund Proposal**”); Amendments to Form ADV and Investment Advisers Act Rules, Investment Advisers Act Release No. 4091 (May 20, 2015), 80 Fed. Reg. 33718 (June 12, 2015) (the “**Advisers Act Proposal**”).

Since the August 11, 2015 comment letter,² our members have continued to conduct a detailed operational review of the proposed data collection requirements, including sources of data and the reporting infrastructure. Based on member feedback, the work relating to setting up the data collection, validation and reporting process presents an extensive burden on asset management firm resources. The operational complexity of the end-to-end data collection and reporting process is very significant and will incur substantial costs to put in place.

Need for Longer Implementation Time

After further analysis of the proposed regulatory requirements, our members believe that they will be unable to comply manually with the new reporting requirements without significantly bolstering existing staff and existing infrastructure. Further, the cost, time and resources that it will take to build out the necessary infrastructure industry-wide to support the requirements will go beyond the realm of any other regulatory initiative to date. Some costs may not have factored into the SEC's initial estimates as well. For example, investment managers believe they will need to hire outside consultants, both from a project management and IT perspective, to help manage and oversee this process, as the scope of this initiative is too great for existing executives to manage alone.

Form N-Port

Asset managers are also concerned about meeting the specific requirements relating to the monthly filing of N-PORT. Specifically, they are uncertain about the ability of service providers to generate the required information in a manner that is both timely and accurate, and subject to proper controls to ensure correctness. The large number of data sources needed to complete the N-PORT filing and the technology and infrastructure that is necessary both to obtain the data and to centrally manage the data makes it difficult for asset managers to meet the time-frame required by the SEC. Larger firms may need to gather data for hundreds of funds, and more than 50,000 positions at any one time. For some asset managers, a multi-manager fund structure will significantly add complexity to the data gathering process.

In addition, much of the information that would be required under the new reporting requirements is not currently available in the asset management firms systems. Therefore, significant "pipelines" will need to be built to obtain this data, or other solutions will have to be developed. For example, firms need to put systems in place for risk metric calculations, which in many cases currently do not exist. Given these challenges, many investment managers are looking into a third party service provider for the data collection, manipulation and reporting obligations necessary to complete Form N-PORT. However, implementing a technological solution with these third party service providers and ensuring a robust review process to ensure good data quality will take time to put in place.

Asset managers need sufficient time to explore all available solutions, and then time to either build the necessary infrastructure or build pipelines between their systems and a chosen outside

² SIFMA [AMG/AMF Comment Letter re: Investment Company Reporting Modernization File No. S7-08-15; Amendments to Form ADV and Investment Advisers Act Rules File No. S7-09-15](#)

service provider. Given that every fund complex will be doing the same thing, if service providers do create helpful solutions, those service providers will also likely be stretched thin, leading to delays in building and testing the necessary infrastructure. Also, even if outsourced, the process build-out will likely result in the hiring of additional staff, as there will still need to be a control environment built around the Form N-PORT preparation and review processes. We would like to reiterate the ask from our previous letter to change the compliance date for all funds to later or (a) 24 months following adoption of the final rule and (b) 6 months following publication of the final XML data structure for form N-PORT.

Form ADV

For the ADV proposal, firms noted that most exposure data is gathered at the client or account level and it would require significant systems work to aggregate these values at the level of the investment adviser.

N-PORT Compliance Timeline

Our members believe that there is a mismatch in timing of the audit cycles of the N-PORT data, which is usually about 50 days post the period in question, and the SEC's proposed reporting cycle for Form N-Port, which is 30 days post the period in question. This mismatch will increase the possibility of finding discrepancies in the data after it has been submitted to the SEC. Firms are concerned about the repercussions of potential errors.

Another concern is the lack of time to validate the accuracy of the data for those metrics that are produced only for the SEC's reporting purposes. For example, many asset managers outsource the fund accounting function. Thus, with multiple content contributors, and dependency on third party controlled data from custodians, asset managers are worried that there is not enough time to diligently check the accuracy and integrity of the information. The monthly reporting also overlaps with the SEC's semi-annual reporting requirements, as well as Commodity Futures Trading Commission reporting requirements, creating a time and resource crunch to produce and review data.

In order for our members to help the SEC in its ultimate mission to protect investors by facilitating oversight of the asset management industry, the data collected on form N-PORT should be, to the extent possible, reliable, accurate, and free of errors. The asset management industry needs more than 30 days time to collect the vast amount of data points, consolidate it from multiple sources, and validate the accuracy of the data. Based on the complexity of the above described process, we are asking for 45-60 day reporting window.

Specific Operational Challenges

Monthly reporting on Form N-PORT of net realized gain/loss and net change in unrealized appreciation/depreciation attributable separately to derivatives for each specified "risk" category

would create additional challenges for investment managers. The risk metric calculations rely on a variety of assumptions, and to the extent that those assumptions differ between firms (or even within a single firm), the comparability of the data provided will be compromised. Also, the various taxonomies required by the form (i.e., Asset Type, Issuer Type, Country of Risk and/or Country of Origin) are open to interpretation without more specific guidance.

Another challenge is preparing the information on a Generally Accepted Accounting Principles (GAAP), or trade date, basis. For many asset managers, the reportable information is provided via external service providers in support packages that are comprised of numerous electronic and hard copy files. Oftentimes, the information is not retrievable from the investment manager's in-house systems, which are on a T+1 basis and obtained from their service providers nightly through a data feed. If information is required on a GAAP basis, asset managers will need to evaluate not only the options available with service providers to feed such information, but also internal options as the existing infrastructure is not set up to receive GAAP information. The GAAP information is provided by external service providers and typically received eight business days after the period in question ends. Also, for many asset managers, some of the GAAP information is compiled manually, and typically takes several weeks to prepare and analyze for a small sub-set of funds (i.e., those funds fulfilling semi-annual and quarterly reporting requirements in that month). A 30-day filing timeframe would currently not be possible.

Implementation of the new liquidity risk management rules³ is an additional challenge if Form N-PORT encompasses the new liquidity metrics as proposed. This consideration will require a significant amount of effort for asset management firms to build the processes, procedures and systems necessary to identify and maintain such requirements.

The industry is also being asked by the SEC to develop new tools for derivatives monitoring and liquidity reporting⁴ along with the N-Port requirements. It would be preferable if the dates for all of these efforts could be coordinated so that we could ensure a reasonable allocation of resources and optimal sequencing of tasks.

Confidentiality Concerns

Most firms have serious concerns in connection with making the information filed on Form N-PORT public. Specific items that should not be made public due to the judgment involved in determining these items is 1) Portfolio level metrics, 2) Illiquidity determinations, 3) Country of risk determinations, and 4) Derivatives financing rates. Firms note that risk metrics could be easily misunderstood by investing individuals, and potentially be harmful to investors. Asset

³ Investment Company Act Release No. 31835, Open-End Fund Liquidity Risk Management Programs, File No. S7-16-15

⁴ Investment Company Act Release No. 31933, Use of Derivatives by Registered Investment Companies and Business Development Companies, File No. S7-24-15

managers also note that underlying methodologies of risk metrics may not be the same, making it wrong to compare across different funds.

Asset managers are particularly concerned that competitors may obtain proprietary information about investment strategies, if, for example, they are forced to disclose components of a custom basket of swaps. It also might be possible for the public to reverse-engineer the manager's investment strategy. The fund's quarterly data could be mined for trading patterns in order to replicate the portfolio's underlying strategy (e.g., the underlying analytics or equations behind a quantitative strategy). This could lead to an attempt to front-run a fund.

Other issues that have been raised by our members include concerns that making information public can compromise a fund's arrangements with a counterparty, such as revealing details about securities lending activities. Disclosing financing rates may also affect derivative instrument financing, to the detriment of the fund industry. For Form ADV, investment managers have noted that they are concerned about the public disclosure of clients' assets and derivatives exposures in separate accounts by derivative type, particularly for large accounts, if they are the only account in a net asset value category.

Data Security Concerns

Our members also [continue to] have concerns about how the SEC intends to ensure that only certain months' N-PORT filings are accessible to the public, and how the Commission plans to ensure that data is kept secure. We urged in our previous letter the Commission to take all necessary security steps to safeguard the information against data breaches, and to engage with the industry on appropriate measures. Based on the increasing number of cyber threats and data breach incidents, asset management firms consider infallible data security systems and practices with utmost importance. As SEC Commissioner Aguilar has expressed "No single organization has the resources or the expertise to combat the advanced and persistent cyberattacks that are being launched today."⁵ The government has been breached by hackers, as well as financial services firms. We are concerned that the quality and uniqueness of the data collected from funds will make SEC a target for increasing attempted cyber attacks. SIFMA AMG feels that the SEC is obligated to share with the owners of the data its plans on how it intends to keep the information secure without compromising security.

* * *

⁵ Commissioner Aguilar speech on June 25, 2015 (<http://www.sec.gov/news/speech/threefold-cord-challenge-of-cyber-crime.html>)

SIFMA AMG and AMF sincerely appreciate the opportunity to comment and your consideration of these views. We stand ready to provide any additional information or assistance that the Commission might find useful. Please do not hesitate to contact either Timothy Cameron at [REDACTED] or [REDACTED] or Elisa Nuottajarvi at [REDACTED] or [REDACTED] with any questions.

Sincerely,

Timothy W. Cameron, Esq.
Asset Management Group – Head
Securities Industry and Financial
Markets Association

Elisa Nuottajarvi
Asset Management Group
The Asset Managers Forum
Securities Industry and Financial
Markets Association