MEMORANDUM

To: File No. S7-08-15

From: Division of Economic and Risk Analysis

Date: May 26, 2016

Re: Investment Company Reporting Modernization –Release No. IC-31610

On January 14, 2016, Dr. Mark Flannery (Chief Economist and Director, Division of Economic and Risk Analysis) received the comment set forth below from Dr. Richard Evans (Associate Professor, Darden Graduate School of Business, University of Virginia):

"For my paper with "Fund Performance and Equity Lending: Why Lend What You Can Sell?" with Miguel Ferreira and Melissa Prado we collected the security lending income and collateral data from the SEC NCSR fillings. We originally collected the data for the 2002–2008 period anticipating that we would collect over our entire time period. However, when we calculated the average rebate rate for the securities lent (income divided by collateral) it was over 1800% and that was ignoring the ~1.4% of instances where the security lending income was positive but the collateral value was 0. The standard deviation of the estimated rebate rate was over 80000% with substantial positive skewness (~50) in the subsample with both positive lending income and positive collateral reported. The average, the skewness were broadly consistent with window dressing in the collateral, but our takeaway was two-fold:

1) The rebate rate estimated from the security lending income/security lending collateral N-CSR data was unreliable. We have regression results in the appendix with this data, but we never use the rebate rate, rather we use the income divided by fund TNA and the collateral divided by fund TNA.

2) Since the income was an aggregate over the year, it seemed unlikely the issue was with this being reported incorrectly. However, the collateral was only reported for a single date, so this was more likely an issue with the collateral numbers."