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August 11, 2015

Submitted electronically

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

Re: **Investment Company Reporting Modernization and Amendments to Form ADV and Investment Advisers Act Rules – File Nos. S7-08-15 and S7-09-15**

Dear Mr. Fields:

We appreciate the opportunity to provide our comments to the Securities and Exchange Commission (the “Commission”) on several reporting enhancements set forth in the Commission’s release on Investment Company Reporting Modernization.¹ Vanguard is a Commission-registered investment adviser that offers more than 190 funds with aggregate assets of approximately \$3.2 trillion. Vanguard generally supports the proposed reporting initiatives because we believe these reporting obligations will provide the Commission with the tools and information necessary to monitor portfolio composition and risk exposure among funds, without exposing fund investors to potentially harmful front-running activities. Additionally, we want to express our support for the Commission’s proposed reporting enhancements set forth in the Commission’s release on Amendments to Form ADV and Investment Advisers Act Rules.²

I. **Executive Summary**

We generally support the Commission’s proposals and summarize our key points below:

- **The Commission Should Extend Form N-PORT’s Compliance Period From 18 Months to 30 Months.** A 30-month compliance period will provide funds with sufficient time to implement the systems enhancements necessary to provide the Commission with accurate and timely data. It will also provide the Commission with additional time to ensure that it has the necessary capabilities to protect Form N-PORT’s sensitive data.
- **The Commission - Not Funds - Should Calculate Relevant Risk Metrics From Form N-PORT Data.** The Commission should calculate risk metrics from Form N-PORT data, which would empower the Commission to draw “apples-to-apples” comparisons among funds and better monitor for industry trends. This may not be possible if each fund performs its own calculations of risk metrics.

¹ *Investment Company Reporting Modernization*, SEC Release No. IC-31610 (May 20, 2015) (the “Proposing Release”), available at <http://www.gpo.gov/fdsys/pkg/FR-2015-06-12/pdf/2015-12779.pdf>.

² *Amendments to Form ADV and Investment Advisers Act Rules*, SEC Release No. IA-4091 (May 20, 2015), available at <http://www.gpo.gov/fdsys/pkg/FR-2015-06-12/pdf/2015-12778.pdf>.

- **The Commission Should Extend Form N-PORT's Filing Periods to Provide Funds with Sufficient Time.** A 45-day rather than a 30-day filing period is necessary for funds to assemble and file Form N-PORT on a monthly basis. A 60-day rather than a 30-day filing period for the portfolio holdings schedules accompanying the first and third fiscal quarter Form N-PORT filings would allow for the same amount of time funds currently have to file those schedules as part of Form N-Q.
- **The Commission Should Clarify the Scope of Certain Securities Lending Data within Form N-CEN.** A default by a borrower of fund securities should only be reported on Form N-CEN if it caused the fund to liquidate collateral pledged in connection with the securities loan.
- **The Commission Should Avoid Making Fund Financial Statements More Complex or Confusing to Investors.** The disclosure of Federal tax basis information and categorization of investments should be made at a level of detail that is understandable to the investor.
- **We Strongly Support the Commission's Proposal to Permit Funds to Deliver Shareholder Reports via Website.** We also encourage the Commission to continue its efforts in leveraging technology to reduce expenses borne by fund shareholders.

A more detailed discussion of each of these points follows.

II. Proposed Form N-PORT

We generally support filing the new Form N-PORT on a monthly basis with a 30-day lag. We also support the Commission's proposal to make information reported for the third month of each fund's fiscal quarter publicly available 60 days after the end of the third month of the fund's fiscal quarter.³ In proposing a combination of monthly Commission reporting with infrequent, limited public disclosure, we think the proposal strikes an appropriate balance, providing the Commission with the data necessary to monitor the industry and inform its rule-making initiatives while, at the same time, protecting investors from potentially harmful front-running activities.

Compliance Dates

Notwithstanding our general support for Form N-PORT, we believe that the Commission should extend the compliance date from 18 months to 30 months. The Proposing Release sets forth a compliance date of 18 months after the effective date for larger entities (e.g., funds that together with other investment companies in the same group of related investment companies have net assets of \$1 billion or more as of the end of the most recent fiscal year) and 30 months after the effective date for smaller entities.⁴ We believe the Commission should extend the 18-month compliance period to 30 months to allow for the necessary systems enhancements to enable the monthly transmission of data. This longer compliance period could also benefit the Commission by allowing it time to fully assess and, if necessary, prepare for the security of the detailed portfolio holdings data it will receive.

Given the operational complexity of gathering the volume of information to be reported on Form N-PORT, a longer compliance period would allow additional time for us to implement systems

³ See 80 Fed. Reg. at 33613.

⁴ See 80 Fed. Reg. at 33653 and 33654.

enhancements that will be necessary in order to facilitate the accurate and timely transmission of data to the Commission. Currently, the data required to be reported on Form N-PORT is contained within numerous data systems. In order to facilitate a systematic monthly filing process, it will be necessary for us to build the capability to aggregate the required data in a single file. A similar situation was presented in 2010 when the Commission adopted money market reforms that required money market funds to file Form N-MFP.⁵ To comply with Form N-MFP for our 12 money market funds, it took 18 months to build the capability to systematically prepare and submit the regulatory filings. With respect to Form N-PORT, filings will be required for more than 190 funds, so we anticipate that systems enhancements will take longer than 18 months. We believe a 30-month compliance period would allow sufficient time to implement the necessary systems enhancements.

We believe an extended compliance date would also allow the Commission more time to assess and, if necessary, take additional steps to ensure the security of Form N-PORT data. With the implementation of Form N-PORT, the Commission will receive and store information that funds deem highly sensitive or confidential. The Commission has recognized the importance of cybersecurity as reflected in its recent guidance.⁶ In this guidance, the Commission advocates periodic assessment of, among other things, internal and external cybersecurity threats, related controls and processes, and the impact should systems become compromised. While this guidance was directed at investment companies, the same cybersecurity threats could be targeted at the Commission. As we have seen through the recent breach at the Federal Government's Office of Personnel Management, government agencies are not immune to cybersecurity attacks. Extending the compliance date for Form N-PORT would allow more time for the Commission to assess its own internal systems with an eye toward cybersecurity and to make any necessary adjustments or enhancements.

Risk Metrics

We also recommend that the Commission omit risk metrics as a reportable item in Form N-PORT. Rather, we recommend that the Commission use the raw data reported in Form N-PORT to perform its own calculation of risk metrics. Investment companies may use different pricing sources, analytics, and other information that feed into risk metrics calculations. If each investment company performs its own calculations, the results may not enable the Commission to draw "apples-to-apples" comparisons. If, however, investment companies provide the Commission with the raw data via Form N-PORT and the Commission, in turn, performs its own risk metrics calculations, the result should allow for better comparability and, we believe, will better enable the Commission to monitor for trends and analyze the impact of various market conditions on funds.

Filing Period

Finally, we recommend that the Commission extend the filing period for portfolio holdings schedules accompanying the first and third fiscal quarter Form N-PORT filings from 30 days to 60 days as that would provide the same amount of time investment companies currently have to file those schedules as part of Form N-Q. We believe that 60 days is an appropriate amount of time to complete this process and recommend the filing period be extended accordingly.

We also recommend that the Commission extend the filing period for Form N-PORT from 30 days to 45 days after month end. There is much work to be done between month end and the filing of

⁵ See *Money Market Fund Reform*, SEC Release No. IC-29132 (Feb. 23, 2010), available at <http://www.sec.gov/rules/final/2010/ic-29132.pdf>.

⁶ See IM Guidance Update No. 2015-02 (April 2015).

Form N-PORT. The data requested by Form N-PORT resides in numerous platforms, including those maintained by Vanguard and, in some cases, those maintained by external investment advisers. Time is necessary to gather all of the required data, consolidate this data into a single file, convert this file into the XML filing format, and file with the Commission. A 45-day filing period would allow sufficient time to complete this process.

III. Proposed Form N-CEN

We generally support the Commission's efforts to collect information on Form N-CEN, which will enhance the Commission's ability to perform its important regulatory functions. However, with respect to certain securities lending data, we recommend that the Commission clarify that a default by a borrower of fund securities is only reportable on Form N-CEN if it causes the fund to liquidate collateral pledged in connection with the securities loan.⁷ Under the current proposal, Form N-CEN could be interpreted to require funds to track and report numerous instances of technical defaults that do not appear to serve the Commission's purpose under the reporting requirement.⁸ In the securities lending industry, as in trading environments generally, technical defaults are common due to operational issues usually related to processing or communication. Such technical defaults are typically resolved in a prompt manner and rarely, if ever, impact the fund as the lender of securities.

Requiring funds to report defaults where they liquidated collateral pledged in connection with the securities loan as a result of the default would appropriately exclude technical defaults and ensure that the Commission collects the most useful data. This would help the Commission achieve its goal to provide meaningful information to investors in order to evaluate the risks associated with borrower default.

IV. Amendments to Regulation S-X

We generally support the amendments to Regulation S-X in the Proposing Release and believe more standardized disclosures in the financial statements that codify current industry practice will be useful to investors. However, there are certain provisions that we recommend the Commission augment or remove to avoid making the financial statements more complex or confusing to investors.

In the Proposing Release, the Commission is amending Article 12 of Regulation S-X to require footnote disclosure of Federal income tax basis information in each schedule listing a fund's derivative investments, investments in securities sold short, and investments in affiliates. These proposed disclosures are incremental to the current requirement to disclose this information in the schedules of investments in securities of unaffiliated issuers and investments other than securities. Instead of providing the Federal income tax basis disclosures in separate investment schedules, we recommend that the disclosure be presented on an aggregate basis. Additionally, we recommend that this aggregate-level Federal income tax basis information be provided annually instead of semi-annually, to align with the frequency of tax basis components (of dividends and of distributable earnings) disclosures currently required by Generally Accepted Accounting Principles ("GAAP"). We believe that the combination of the annual disclosure of Federal income tax basis information and the tax basis components (of dividends

⁷ The Commission is proposing that funds report whether any borrower of fund securities defaulted on its obligation to return the loaned securities or defaulted on its obligation to return the loaned securities on time in connection with a loan during the reporting period. *See* 80 Fed. Reg. at 33640 and 33641.

⁸ The Commission explains that these reporting requirements would yield data that would allow the Commission, investors, and other potential users to assess the counterparty risks associated with borrower default in the securities lending market. *See* 80 Fed. Reg. at 33641.

and of distributable earnings) disclosures will be meaningful to investors in their understanding of a fund's tax position.

The Proposing Release modifies the schedule of investments in securities of unaffiliated issuers to include the type of investment, the related industry, and the related country or geographic region, whereas currently, GAAP permits funds the flexibility to categorize such investments by related industry or related country or geographic region (in addition to disclosing the type of investment). Inclusion of both industry and country/geographic region may cause the presentation of a fund's investments to be confusing to investors. We recommend that the Commission allow funds to continue to follow the current GAAP requirement regarding categorization of investments in securities of unaffiliated issuers.

V. Website Delivery of Shareholder Reports

We strongly support the Commission's proposal to modernize the manner in which funds may transmit shareholder reports to investors. Permitting funds to deliver shareholder reports through their websites ensures that investors have the necessary information to make informed investment decisions while reducing the costly expenses associated with printing and mailing shareholder reports. Funds, and their shareholders, will benefit from these reduced fund expenses. We encourage the Commission to continue its efforts in leveraging technology to reduce expenses borne by fund shareholders. For example, we encourage the Commission to consider modernizing the manner in which funds must deliver their prospectuses to investors. However, such consideration should not impede progress on proposed rule 30e-3.

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We appreciate the opportunity to comment on the Commission's proposals. If you have any questions about Vanguard's comments or would like any additional information, please contact Brian P. Murphy, Senior Counsel, at [REDACTED], or Judith L. Gaines, Associate Counsel, at [REDACTED].

Sincerely,

Mortimer J. Buckley
Chief Investment Officer
Vanguard

cc: The Honorable Mary Jo White, Chair
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael S. Piwowar, Commissioner
David Grim, Director, Division of Investment Management