

MEMORANDUM

TO: Proposed Rule: Use of Derivatives by Registered Investment Companies and Business Development Companies
(Release No. IC-31933; File No. S7-24-15)

FROM: Sirimal R. Mukerjee
Senior Counsel, Division of Investment Management

RE: Meeting with Representatives of the Securities Industry and Financial Markets Association (“SIFMA”)

DATE: June 2, 2016

On June 2, 2016, Diane C. Blizzard (Associate Director, U.S. Securities and Exchange Commission (“SEC”), Division of Investment Management (“IM”)), Jennifer McHugh (Senior Policy Advisor, IM), Marian Fowler (Senior Special Counsel, IM), Brian McLaughlin Johnson (Senior Special Counsel, IM), Penelope Salzman (Senior Special Counsel, IM), Roberta Ufford (Senior Special Counsel, IM), Thoreau A. Bartmann (Branch Chief, IM), Adam Bolter (Senior Counsel, IM), James Maclean (Senior Counsel, IM), Sirimal R. Mukerjee (Senior Counsel, IM), Christof Stahel (Assistant Director, Division of Economic and Risk Analysis (“DERA”)), Jae Hyun Choe (Economist, DERA), Yue Tang (Economist, DERA) and John Cook (Senior Special Counsel, DERA) met with the following representatives of SIFMA:

- Christopher J. Dahlberg, Vice President, Compliance, AlphaSimplex Group, LLC,
- Nicole DonVito, Senior Counsel & Head of Registered Products, AQR Capital Management, LLC, and Chief Legal Officer, AQR Funds
- Marco Hanig, Principal, AQR Capital Management, LLC, and President, AQR Funds
- Kathryn Fulton, Managing Director, BlackRock
- Kalaundra (Kally) Carreathers, Derivatives Counsel, Brandywine Global Investment Management, LLC
- Tilak Lal, Managing Director, Chief Risk Officer, K2 Advisors
- Arthur Leiz, Managing Director – IMD Global Risk Management, Goldman Sachs Asset Management, L.P.
- Wendy Yun, Managing Director & Associate General Counsel, Goldman Sachs Asset Management, L.P.
- Mara Shreck, Head of Regulatory Affairs, Asset Management, JP Morgan

- Michael Murray, Executive Director, Fixed Income, Derivatives, JP Morgan Asset Management
- Gifford R. Zimmerman, Managing Director and Associate General Counsel, Nuveen Investments
- Jerry Cubbin, Senior Vice President, OppenheimerFunds
- Stephen King, Senior Vice President & Senior Counsel, Pacific Investment Management Company LLC
- Timothy W. Cameron, Managing Director, Head of Asset Management Group, SIFMA Asset Management Group
- Aseel M. Rabie, Managing Director and Associate General Counsel, SIFMA
- William Thum, Principal, Vanguard Group, Inc.
- Michael R. Roach, Portfolio Manager, Vanguard Quantitative Equity Group
- P. Georgia Bullitt, Partner, Willkie Farr & Gallagher LLP
- James R. Burns, Partner, Willkie Farr & Gallagher LLP

Among other things, the participants discussed the SEC's proposal relating to the use of derivatives by registered investment companies and business development companies, including the information provided by SIFMA set forth in Annex A.

[Attachment]

Comparison of VaR approaches

	(current proposal) 300% Derivatives Exposure Limit AND Derivatives must be VaR reducing	300% Derivatives Exposure Limit AND VaR must be less than 20%	300% Derivatives Exposure Limit AND [Derivatives VaR – securities VaR] < x%
game-able	Unlikely*	Unlikely*	Unlikely*
Predictable / controllable	No (correlations can flip)	Yes	No
operational ease of use	Difficult	Easy	Difficult
aligns with investment process	No	Yes	No
		Already in practice in UCITS	
expected casualties	Levered ETFs Some fixed income funds. <u>Most</u> liquid Alts funds: - Several Multi-strat - All Macro - Currency	Some Levered ETFs <u>Some</u> Liquid Alts that are more volatile than long only equity funds - Few Multi-strat - Some Macro - Some Currency	Some levered ETFs <u>Some</u> Liquid Alts that are more volatile than long only equity funds - Some Multi-strat - Some Macro - Some Currency

*Derivatives Risk Manager and derivatives risk management program with board oversight are game changers

Confidence level 99%
Horizon 1 month

S&P 2 yr EQ weighted monthly VaR

