February 14, 2023

VIA ELECTRONIC SUBMISSION

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Open-End Fund Liquidity Risk Management Programs and Swing Pricing; Form N–PORT Reporting, File No. S7–26–22. Release Nos. 33–11130; IC–34746

Dear Ms. Countryman:

On behalf of Principal Financial Group® (Principal®) we are writing to express our concerns and resulting strong opposition with the Securities and Exchange Commission's (the "Commission") proposed hard close requirement for open-end mutual funds as part of the Proposed Rule Open-End Liquidity Risk Management Programs and Swing Pricing; Form N-PORT Reporting, RIN 3235-AM98 ("the Proposed Rule").

Principal helps people and companies around the world to build, protect, and advance their financial well-being with our retirement, insurance, and asset management expertise. Our comments and observations are based on more than 140 years of experience in the retirement and financial services industry.

- In the U.S., we currently provide retirement services, including daily-valued recordkeeping, investment, education and administrative services to more than 50,000 retirement plans covering 11.9 million employee participants and $475 billion in assets[1].

- We service approximately 63,000 in-force, individual variable annuity contracts with assets of $9.4 billion[2]. Our typical individual variable annuity customer is close to or in retirement and wants the potential of growth from market performance with the ability to lock in lifetime guaranteed income at some future date. We also service more than 39,000 variable life insurance contracts.

- Our asset management subsidiary, Principal Asset Management ("Principal AM"), is a registered investment adviser with clients that include registered investment companies, e.g., mutual funds and exchange-traded funds. Principal AM's assets under management ("AUM") were $507 billion as of 06/30/2022. $147 billion of these assets represent holdings in mutual funds and exchange-traded funds, of which 87 percent are held by retirement plans and other intermediaries. Investors in our registered open-end funds

[1] As of 6/30/2022
[2] As of 12/31/2022

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include individual retail investors, high-net worth investors, institutions, and participants in employer-sponsored retirement plans.

We understand that the Commission's intended purpose for implementing a hard close is to better operationalize implementation of swing pricing to ensure that transaction costs are appropriately reflected in a fund's net asset value ("NAV"). We also appreciate the Commission's role in ensuring investors are appropriately protected as the relevant markets evolve. As we will outline further below, however, Principal vigorously opposes implementation of the Proposed Rule for a number of reasons that are critical to the retirement security of millions of American workers:

- Implementation of a hard close will force a complete overhaul of the existing trade processing systems and procedures, developed over many decades of experience, that are the lynchpins both to the daily-valued defined contribution system and to the effective operation of variable annuity and variable life products ("variable contracts"). The resulting impacts would destroy efficiencies gained over decades of continual investment and evolution in our systems and processes, requiring dramatic expenditures to retool and rebuild.

  In this context, in the Proposed Rule the Commission asks industry to opine on several possible alternatives and provides 60 days for a reaction. Respectfully, the Commission last proposed a hard close nearly twenty years ago and withdrew the proposal in the face of overwhelming opposition. A foundational analysis the magnitude of change represented by the Proposed Rule should involve many months of study, research, and communication with the relevant industries. As a result, the Proposed Rule should be withdrawn and, if the Commission is intent on continuing to pursue the matter, a Request for Information should be issued to allow all stakeholders to conduct thorough, thoughtful analysis on possible methodologies that could better facilitate the Commission's goals.

- As the Commission acknowledges in the Proposal[3], the primary way that the majority of Americans invest in mutual funds and participate in the capital markets is through saving in an employer-sponsored, defined contribution retirement plan (which collectively include 401(k), 403(b), 457(b), and non-qualified plans) or other intermediaries. Millions of Americans rely on employer-sponsored retirement plans to help them achieve a financially secure retirement.

  We are very concerned about the harmful impacts the Proposed Rule, especially the proposed hard close, would have on working Americans' retirement security. The significant costs that would result from a complete rebuild of defined contribution recordkeeping and trade processing systems, participant interfaces, and repapering of legal agreements and policies would ultimately be borne by retirement savers. This would reverse years of beneficial reductions in expenses and fees enjoyed by those same savers.

[3] Fed. Reg. 77,178 (stating that "we understand that the majority of mutual fund orders are placed with intermediaries, such as broker-dealers, banks, and retirement plan recordkeepers").

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The Proposed Rule would also unfairly force trading restrictions on retirement savers with only portions of each trading day available to them for issuing investment directions, effectively subordinating retirement savers to institutional and other direct investors who have no such restrictions. This will give institutional and other direct investors a material advantage by having access to market information for the full trading day to inform their decisions.

The Proposed Rule takes what is one of the simplest, most broadly-available, transparent, highly-regulated, and liquid investment vehicles used by ordinary Americans to save for their retirement and drastically complicates it, driving increased costs and confusion, potentially limiting its effectiveness and damaging investors' confidence in mutual funds and the retirement system.

- To accommodate a hard close requirement, the Proposed Rule envisions the development and introduction of new processes and technologies along with an earlier cut-off time for retirement savers and other investors whose trades flow through intermediaries. But the impact is actually far greater, fundamentally breaking the defined contribution recordkeeping system as it currently exists. The vast majority of trades from retirement savers are requested in dollars and percentages of the dollar account balance, not in shares. Under the current system, for example, an exchange from one mutual fund to another is straightforward because both funds know the NAV at the 4 p.m. close for the day, with transaction settlement occurring subsequently. But a hard close would complicate even the simplest of transactions, likely requiring processing in multiple steps. The consequence is that plan participants are removed from the market for perhaps an entire day.

- In seeking to solve for a theoretical risk that the Commission itself identifies as perhaps being present in less than 1% of market activity over ten years[4], the entire defined contribution ("DC") retirement system must be redesigned and rebuilt, negatively impacting retirement savers on every trading day. The costs, distractions, and restrictions resulting to mutual and exchange-traded fund investors from this broad and extreme rulemaking are simply unnecessary and far outweigh any potential perceived benefits. Mutual funds managed by Principal AM have always met investors' redemptions consistent with their best interests and did not require the type of exemptive relief during market volatility cited by the Commission in the preamble to the Proposed Rule. Although these mutual funds experienced redemptions during those times of market stress, they operated as expected and were easily able to accommodate shareholder requests.

- The proposed amendments to liquidity risk management programs are inconsistent with the SEC's Asset Management Advisory Committee's conclusion that the SEC should

[4] Fed. Reg. 77,187 (stating that, "We believe that weekly outflows at the 99th percentile is a useful approximation of the level of outflows funds may experience in future stressed conditions.")

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consider permitting retail investors access to a wider range of private investments[5]. The SEC committee's observations included: (1) that several macroeconomic and structural factors would likely continue to result in a higher demand for investments and investment choices from retail investors and a more concentrated supply of public market equity investment choices; and (2) that returns from the private investment asset classes it reviewed exhibit similar or higher returns than their public market equivalents. Notwithstanding these considerations, the proposed amendments to liquidity risk management programs would significantly limit investors' options to invest in less liquid investments and cut investors off from investment options that could provide similar or higher returns than the most liquid public market investment options.

- Registered open-end funds would be significantly more restricted in their ability to meaningfully invest in certain types of investments and asset classes. Certain open-end funds currently operating and on which investors currently rely to achieve their investing goals would be required to dispose of a significant percentage of their current holdings and reallocate sales proceeds to lower-yielding investments. These portfolio transitions would cause current investors to incur significant trading costs and potentially hinder the funds' investors' abilities to achieve their desired and expected investment outcomes.

We are gravely concerned that the increased costs and significant restrictions on current capabilities that as a certainty would result from operationalizing the Proposed Rule would far outweigh any potential benefits that investors would realize. Accordingly, Principal is requesting that the Commission withdraw the Proposed Rule.

I. The hard close requirement threatens efficiencies gained over many years of investment and evolution in the defined contribution recordkeeping system and would drive up trading costs for retirement plans and savers

We are extremely concerned with the Commission's characterization of recordkeepers' trade processing systems as "legacy systems" that exhibit "limitations of their current processing systems and hardware" resulting in "the time it currently takes between when some recordkeepers begin to process their orders and when the order is finally submitted to the fund can take upward of six hours."

Principal, as one of the top providers of employer-sponsored retirement plans in the U.S., has continually invested in our recordkeeping and trade processing systems to drive ever greater levels of efficiency. Our more than 50,000 retirement plan sponsor customers and their nearly 12 million plan participants enjoy and have become accustomed to daily valuations of accounts and the ability to request investment decisions that reflect the ending NAV on the day of request.

[5] *See Final Report and Recommendations for Private Investments*, SEC Asset Management Advisory Committee (September 27, 2021), available at (https://www.sec.gov/files/final-recommendations-and-report-private-investments-subcommittee-092721.pdf).

Our retirement plan sponsor customers, who have fiduciary duties related to the selection and ongoing monitoring of plan investments under federal retirement law[6], have access to an immense platform of investment options. The asset management subsidiaries of Principal offer a diverse array of proprietary, institutional-priced investment options, ranging from open-end mutual funds, unregistered separate accounts, and collective investment trusts. In addition to these options, we provide access to literally thousands of unaffiliated mutual funds and collective investment trusts. Our open architecture model allows plan sponsors to choose the investment options best suited for their employees, while meeting their fiduciary obligations under ERISA.

To illustrate the volume of activity that we process on behalf of our retirement plan sponsor customers and plan participants, during the month of December of 2022, we processed approximately 167,340,000 individual transactions for a variety of investment directions (for this purpose, a periodic contribution that allocates 50% to Fund A and 50% to Fund B represents two transactions). These requests can include allocations of periodic plan contributions, exchanges between investment holdings or available investment options, rebalancing of account balances to current investment directions, loans, hardship withdrawals, full and partial account distributions, and allocation of employer contributions that retirement savers don't direct. ***The majority of transaction requests are made on a dollar or percentage basis that calculate to dollar trades – most retirement savers simply don't commonly transact based on numbers of shares, requiring the ending NAV to begin the daily processing of transaction activity.***

Transaction requests received by market close are logged to our recordkeeping system and held until the daily NAV is posted, typically the audited price receipt begins around 7:30pm ET, at which time our system applies various plan rules, checks for Code and ERISA requirements, and performs the netting and batching process which leads to aggregated trade orders. Our omnibus trade process aggregates all of the daily orders received from the retirement savers from across our more than 50,000 retirement plan sponsor customers to create a single net purchase or redemption order per fund. The massive scale of transactions requires overnight processing, with final reconciled, netted, and batched trade file data being sent to the National Security Clearing Corporation ("NSCC") in the early morning hours of the next day.

To continue with our December 2022 example, and to demonstrate the incredible efficiencies and benefits provided by omnibus trading to retirement savers, **our final trade file request distilled the 167,340,000 individual transaction requests received during the month to approximately 136,500 total trade orders to the NSCC.** At a cost of $0.06 per trade order through the NSCC, our omnibus trading process substantially reduces trading costs for retirement plans and retirement savers, especially relative to any alternative system that would facilitate one-on-one trades by individual retirement savers. Our omnibus system also affords individuals with balances well below mutual fund minimums to have access to pooled investments, with plans of all sizes providing access to institutional share classes requiring significantly higher balances than many retirement savers would have on their own.

While the Commission acknowledges that "retirement plan recordkeepers may face particular challenges with adhering to" a hard close, we believe it vastly underestimates the disruption, harm, and cost that would result from the implementation of a hard close. As we note above, our

[6] The Employee Retirement Income Security Act of 1974 ("ERISA")

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trading system and processes are designed specifically to begin processing AFTER NAVs are received from fund partners. This system would have to be rebuilt from the ground up, requiring a multi-year, multi-million effort with close coordination with fund partners, third-party administrators ("TPA") and the NSCC. The rebuild would impact our recordkeeping system, trade processing system, and our online, digital, and telephonic plan participant interfaces. Virtually all contractual agreements would require repapering including plan sponsor service agreements, fund trading agreements, summary plan descriptions, group annuity contracts, and CIT participation agreements. Further, and as detailed below, the Proposed Rule would impose unique and irreparable damage to insurers that offer variable contracts and to the policyowners that hold them.

The costs of such monumental change could not be absorbed by service providers and ultimately will be passed along to retirement savers in the form of higher fees and expenses at a level that will far surpass any potential benefits afforded by the implementation of swing pricing. Given the cumulative negative effects the Proposed Rule would have on industry, the defined contribution system, and variable products, the Commission should have undertaken serious study regarding the economic ramifications of implementing a hard close. Yet, the Commission indicates in the Proposed Rule that it is "not able to quantify many of the costs of the hard close requirement for several reasons."[7] Until the Commission is able to better quantify the costs of a hard close, the Proposed Rule should be withdrawn.

II. Retirement savers would be harmed by implementation of a hard close

Under existing SEC rules, retirement savers can take into account all market information that is available on orders placed up to the market close at 4pm ET. As investors in the capital markets, this is both an appropriate and reasonable expectation for retirement savers to have, especially when employer-sponsored retirement accounts are often the largest sums of investable assets that Americans accumulate over their working careers. Existing rules also ensure that a level playing field exists for all investors, whether they are retirement savers, variable annuity policy holders, institutional investors, or retail investors.

The Proposed Rule would change this, subordinating retirement savers to institutional and other direct investors by forcing them out of the market much earlier in the day if not for multiple days. To deliver plan-level trade orders to a mutual fund, or separate accounts and collective investment trusts with underlying investments in mutual funds, ahead of the 4 p.m. hard close, participant-level transaction instructions would need to be cut off many hours before 4 p.m. Retirement savers on the West Coast would be further disadvantaged with the possibility of being forced to accept the following day's NAV.

A hard close would also inevitably lead to inconsistent cut-off times among recordkeepers and other intermediaries depending on the nature and complexity of their investment platforms. As retirement plan sponsors change providers due to fiduciary considerations, they would be forced to contend with the prospect of different cut-off times depending upon the provider and the

[7] 78 Fed. Reg. 77261

resulting potential for significant employee confusion and frustration as a result of changing trade deadlines.

We are very concerned about the real possibility that loss of daily-valued trade capabilities, implementation of early cut-off times, and the emergence of inconsistent trade processes among industry providers will result in a dramatic drop in American workers' confidence and trust in the retirement system. The Commission's dismissal of the time sensitivity of retirement fund orders[8] is inconsistent with our own experience assisting retirement savers manage their retirement savings. Our call centers address calls every single day from retirement savers who are contemplating new investment decisions. We know from these interactions that many retirement savers are very conscious of market movements, factoring them into the timing of loans, hardship withdrawals, and other transactions that are not repeated, payroll-triggered contributions. And for retirement savers who have saved an entire career and built substantial savings, even a small variation in daily performance could have a significant impact on a transaction.

The Commission itself notes[9] that implementation of a hard close could incent some plan sponsors to simply abandon mutual funds and seek out investment platforms that avoid a hard close. Ironically, this is a likely outcome of the Proposed Rule and illustrates the dangerous consequences of moving forward with a hard close. To avoid employee confusion, frustration, and dissatisfaction with the ramifications of a hard close, plan fiduciaries would be perversely incented to seek out a drastically smaller subset of investment vehicles that are not encompassed by the hard close requirement, with other factors relevant to fiduciary investment decisions, like risk-return characteristics, fund costs, and manager diversification, becoming secondary considerations. Ultimately, the hard close will lead to investment lineups of lesser quality and diversification, and higher costs.

Maintaining American workers' confidence in our retirement system is paramount to better preparing our population to achieve a financially secure retirement. The Proposed Rule runs directly counter to recent bipartisan efforts of the U.S. Congress that have led to significant and sequential new laws to broaden access to employer-sponsored retirement plans, enroll more workers in plans, improve and simplify disclosures to retirement savers, and speed access to hardship and emergency withdrawals.

III. A hard close would present distinct and unfair challenges for variable insurance products

The variable products that Principal Life Insurance Company offers to our customers, whether they are pooled separate accounts offered in a group variable annuity contract to a retirement

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[8] Fed. Reg. 77,213, "Most fund shareholders are long-term investors, and thus we believe that most fund orders are not time sensitive."
[9] Fed. Reg. 77264, "To the extent that retirement plans can offer collective investment vehicles or ETFs that are not open-end funds but have similar investment strategies to open-end funds at a lower cost, open-end funds would become less competitive within the retirement sector."

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plan sponsor or a variable annuity or life insurance policy issued to an individual policy holder, are legally enforceable contracts between our company and the investors.

Under both state and federal laws, variable contract separate accounts must be insulated against obligations of the insurance company's general account. These laws require that all income, gains, and losses, realized or unrealized, from assets allocated to the separate account shall be credited to or charged against the separate account, without regard to other income, gains, or losses of the insurer. However, under the Proposed Rule's hard close requirement, support from insurers' general accounts would be required, likely on a daily basis. That's because variable products are unitized and NAV-dependent.

The NAV-dependent formula for determining the value of those units is outlined in the variable contract policy. Because separate account units are redeemable, outstanding units represent a financial liability for the separate account, and that liability changes from day to day as units are valued, purchased, and redeemed. To support its unit liability, a separate account holds underlying fund shares as an offsetting asset. Every business day, Principal Life (on behalf of the separate account) purchases and redeems the underlying fund shares in a manner that offsets the change in the separate account's unit liability – a unit liability that, again, is determined by the unit value formula set forth in the variable contract. The structure and operation of separate accounts and the unit value calculation are purposefully and fundamentally designed so that the separate account can support its redemption obligations.

Breakage occurs when a separate account has an asset-liability mismatch, most notably when the potential liability (*i.e.*, the value of the outstanding units) exceeds assets (*i.e.*, the value of the underlying fund shares). Under the current framework, separate accounts should avoid breakage because, every business day, that day's NAV of the applicable underlying fund is used to both (i) strike unit values for the separate account and (ii) price our net purchase/redemption order to the underlying fund. Even though our company transmits orders after 4 p.m. ET, the fund orders still receive same day pricing. The alignment of liabilities and assets is possible because we receive same day pricing from the underlying funds.

Under the proposed framework, separate accounts would be exposed to breakage risk because, every business day, we would strike unit values based on "today's" NAV for the applicable underlying fund, but our net purchase/redemption order to the underlying fund would get "tomorrow's" NAV. For the reasons explained above, given that variable contracts are NAV-dependent products, even if the SEC adopts a hard close, we and other insurance companies will need to continue transmitting our fund orders after 4 p.m. Consequently, we would lose same day pricing on our fund orders, and the loss of same day pricing would expose our separate accounts to breakage risk every business day. In fact, daily breakage risk would exist within every subaccount of every two-tier separate account (separate accounts that invest in one or more open-ended mutual funds).

If the separate accounts themselves bore the breakage, that breakage would result in an asset-liability mismatch due to the contractually mandated unit value formula. When that mismatch is negative, it also would be inconsistent with both the federal and state regulatory requirements that the value of the assets in the separate account be at least equal to the reserves and other contract liabilities with respect to such account.

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Because state insurance laws specify that the value of the assets in the separate account at least equals the reserves and other contract liabilities with respect to such account, insurers might feel obligated to contribute cash from their general accounts to true-up the separate account's assets or otherwise support the separate account's redemption obligations. However, subsidization of the separate accounts' investment operations by insurers' general accounts would be fundamentally inconsistent with the state-mandated segregated and insulated nature of variable contract separate accounts.

Daily breakage risk is simply not something we have contemplated in the pricing of our variable contracts. If the Commission adopts the Proposed Rule, the massive costs resulting from unavoidable breakage will have to be passed onto customers, either in the short or long term.

IV. Implementation of a hard close would disrupt the management of Fund of Funds and expose investors to additional investment risk

In reliance on the rule's exemptions, a fund of funds ("FoF") generally invests in other investment companies in excess of the otherwise-applicable limits of Section 12(d)(1) of the Investment Company Act of 1940[10]. These investment vehicles provide significant benefits to investors including diversification, risk-management, and enhanced asset allocation and outcome-oriented investment strategies and are often offered in series from which investors can select the targeted outcomes or target retirement dates best suited to meet the investor's individual investment goals.

As of 06/30/2022, Principal AM managed approximately $89 billion of assets within such FoF structures; a significant portion of Principal AM's assets under management. The FoF structure is also important to Principal as a leading retirement plan provider because FoFs can be particularly useful to retirement investors who can utilize their target retirement date to more conveniently select investment options that are tailored to that date and evolve as the individuals near retirement thus allowing plan participants the potential to create a better investment outcome for themselves.

Principal is very concerned that the proposed hard close requirement would disrupt the processing of FoFs and harm their shareholders by exposing them to additional investment risk.

How Funds of Funds Operate

The proposed hard close requirement is particularly harmful to FoFs, because FoFs are dependent upon the NAVs of the underlying funds in which they invest. The challenges for FoFs are especially problematic in daily instances of investor orders for full redemptions of an individual's account. These requests are effectively share-based trades. Accordingly, a FoF cannot determine the total dollar amount of its investors' orders until it receives the underlying funds' NAVs upon which the FoF's NAV is calculated. Once the FoF receives the underlying funds' NAVs, the FoF calculates its own NAV and then applies its NAV to that day's

[10] FoFs often rely on Section 12(d)(1)(G) of the Investment Company Act of 1940, among other exemptions, to invest in excess of the Section 12(d)(1) limits.

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shareholder orders. Once the net dollar amount of the investors' orders is calculable, the FoF can then accurately determine the dollar amount of assets it needs to invest in or raise from underlying funds to ensure that the FoF remains fully invested or can promptly meet redemptions, as applicable. The FoF can then submit its own transaction orders to the underlying funds based on the preset allocation.

A hard close is simply not workable for FoFs, because it would require a FoF to submit its orders for the underlying funds (the last step in the process described immediately above) before the FoF is able to determine the dollar amount it needs to invest or raise by purchasing or selling the underlying funds. A hard close would likely require either that a FoF's daily net purchases remain uninvested for an entire additional day or that a FoF incur trading costs to implement cash equitization, thereby potentially harming fund performance or otherwise causing tracking error. Additionally, a hard close could prevent FoFs from raising sufficient cash through sales of underlying funds to meet net shareholder redemptions. This result could potentially force FoFs to maintain higher cash levels to reduce the risk of overdraft fees, which deviates from a well-constructed and informed investment process, based on long-term research of investment markets and observed investor behaviors. Overdraft fees and cash drag would also hurt fund performance and perhaps cause tracking error, with an end result of lower investment returns and inferior outcomes for the individual investors.

The Proposed Rule acknowledges that a hard close could extend the period of time for executing an investor's request to rebalance its holdings to a target asset allocation similar to the FoFs allocation dilemma described above. The Proposed Rule goes on to suggest that these types of orders would need to be executed over more than one day or using prices from the prior day. However, these suggested alternatives require estimation, which not only fail to remove the risks discussed above but could instead exacerbate the risks if the estimation turns out to be wrong.

The potential disruptions of a hard close to FoFs are significant and unworkable. FoFs investors expect and deserve the ability to have their assets managed efficiently and accurately without the undue costs and risks likely resulting from a hard close requirement.

V. The Proposed Rule's liquidity restrictions would harm investors

In 2016, the SEC adopted Rule 22e-4 which requires that open-end funds adopt and implement liquidity risk management programs pursuant to which the funds must assess, manage, and periodically review their liquidity risk[11]. A fund subject to Rule 22e-4 is required to limit illiquid investments to fifteen percent of its net assets. Principal believes that the resulting liquidity risk management programs implemented by the open-end funds managed by Principal AM improved those open-end funds' preparedness and ability to timely monitor and manage their assets in times of market stress. Indeed, in March 2020 and throughout the market volatility

[11] *Investment Company Liquidity Risk Management Programs*, SEC Release No. IC-32315, 81 Fed. Reg. 82142 (Nov. 18, 2016).

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caused by the onset of the COVID-19 pandemic, open-end funds managed by Principal AM immediately assessed resulting liquidity risks to the funds and managed the fund's portfolios in the best interests of the funds and their shareholders. The funds were able to meet investor's redemptions without needing to implement swing pricing as permitted under Rule 22c-1 or to rely on any emergency exemptive relief provided by the SEC. Indeed, those open-end funds effectively maintained an adequate buffer of liquid securities throughout March 2020, and Principal believes that any dilution to shareholders during that time period was likely immaterial in comparison to the added costs and risks that would likely result to shareholders from the implementation of the proposed hard close and amendments to Rule 22e-4.

Rule 22e-4 also requires that open-end funds, as part of their liquidity risk management programs, classify at least monthly each portfolio investment into one of four liquidity "buckets" depending on the characteristics of that particular investment. Specifically, funds must consider how quickly each holding may be sold or otherwise disposed of without significantly changing the market value of the investment and the reasonably anticipated time to settle such sale or disposition. Accordingly, to properly classify the bucketing of all portfolio investments, a fund must determine the sizes of the investments the fund would reasonably anticipate trading (i.e., more colloquially, "RATS") and then use that RATS to determine whether the proportionately sized sale or disposition of each portfolio holding would significantly change the market value of the investment.

The proposed amendments to Rule 22e-4 would require that funds use a minimum ten percent stressed trade size (the "size assumption") and would set explicit value impact thresholds resulting in assumptions that trades of such investments would significantly change the market value of the investments (the "value impact assumptions"). Specifically, a trade in exchange-listed shares would be assumed to significantly change the market value of the shares if the trade size exceeds twenty percent of the share's average daily trading volume ("ADTV") over the preceding twenty business days. For any other investment, the value impact assumption would be raised when the fund reasonably expects the sale or disposition would result in a decrease in sale price of more than one percent. Other significant changes to the Rule 22e-4 bucketing requirements include, but are not limited to:

- eliminating the "less liquid" bucket classification and changing the definitions of other buckets resulting in more investments being classified as "illiquid";
- requiring that "highly liquid investments" be convertible specifically into "US dollars" within the prescribed timeframe as opposed to the current requirement that such investments be convertible into "cash" within the prescribed timeframe;
- requiring that a fund count the initial date of bucket classification when determining the time it takes to sell and settle the trade in a portfolio investment for purposes of bucket classification;
- requiring daily bucket classifications and eliminating asset class classification.

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As a preliminary matter, Principal believes that an open-end fund's liquidity risk management program should utilize material assumptions that reflect the specific characteristics of any given open-end fund to the extent reasonably possible. However, the proposed requirement that funds utilize a ten percent stressed trade size does not reflect the actual level of net redemptions experienced by the open-end funds managed by Principal AM even during the market's most stressed times. Using the ten percent stressed trade size would grossly exaggerate the trade sizes realistically anticipated for those open-end funds' holdings. Further, Principal believes that the strict twenty percent and one percent value impact assumptions are likely inappropriate for some asset classes. Together, these strict thresholds would prevent open-end funds from tailoring their liquidity risk management programs to each open-end fund's particular characteristics which could distort open-end fund's true liquidity risk profiles and cause open-end funds to spend valuable resources evaluating and addressing false alarms. Instead, an open-end fund's liquidity risk management program should be permitted flexibility in tailoring the programs parameters to the particular open-end fund's characteristics and portfolio investments, as is the case today.

Aside from the appropriateness of the stressed trade size and value impact assumptions, the breadth and complexity of the proposed amendments to Rule 22e-4 are very difficult to evaluate on an amendment-by-amendment basis, especially given the short time period provided to submit comments on the proposed amendments. However, the need to additionally and appropriately evaluate how the proposed amendments collectively interact with and impact each other makes the task much more difficult. In fact, when Principal AM worked with one vendor in an attempt to determine the potential impacts from all of the proposed amendments, it was determined that only certain of the proposed changes could be implemented by the vendor to provide hypothetical quantitative impacts. Based on only that limited ability to evaluate the collective impacts of the proposed amendments, Principal believes that several of the funds managed by Principal AM would experience significantly negative impacts which would potentially require changes to the funds' portfolio holdings or investment strategies. The proposed amendments would also significantly limit product development and investors' ability to access certain types of funds and asset classes. Of course, there would likely be additional and yet unknown impacts if all the proposed changes are adopted as proposed.

Principal is particularly concerned by the potential impacts to funds from the combination of the proposed minimum ten percent stressed trade size, the value impact assumptions, requiring a fund count the initial date of bucket classification, and the proposed removal of the "less liquid" bucket.

Certain funds would be significantly impacted by the proposed amendments by being thrust over the fifteen percent illiquid investment limit due simply to the technical changes included within amendments rather than as a result of any change to their existing portfolios or disclosed investment strategies. This result occurs even during ordinary market conditions. In particular, one fund managed by Principal AM would be pushed over the fifteen percent limit merely due to the proposed elimination of the "less liquid" bucket. More specifically, simply by treating the fund's holdings of bank loans as illiquid investments rather than "less liquid" investments would cause the fund to exceed the fifteen percent illiquid limit at the time of testing. As a result of

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exceeding the fifteen percent illiquid limit, the fund would be required to reduce its exposure to the newly defined bucket of illiquid investments resulting in increased transaction costs to the fund and potentially adverse tax consequences. Further, the fund would be extremely limited in its ability to invest in an asset class, namely bank loans, that has provided the fund effective means to help achieve the fund's investment objective. In other words, the fund's investors would lose yet another potential route to achieve financial security.

Even funds that would not currently exceed the fifteen percent illiquid limit solely as a result of the proposed amendments could be impacted by the changes. Many funds, including some managed by Principal AM, have determined to implement internal "soft illiquid limits" in their efforts to prudently manage liquidity risks. Under the proposed amendments, such funds would be required to determine whether to proportionately reduce soft illiquid limits, which would further exacerbate the portfolio management impacts previously highlighted or heighten the risks and attendant costs of exceeding the regulatory illiquid limit.

Finally, the regulatory uncertainty caused by the proposed amendments has likely already delayed or even precluded open-end fund product development efforts involving those asset classes and investments that are currently considered "less liquid" under Rule 22e-4. Without the prompt withdrawal of the proposed amendments, retail investors will likely be denied meaningful access to a broad and important universe of investment opportunities.

In summary, the proposed amendments to funds' liquidity risk management programs are overly prescriptive and inflexible and fail to take into account fund-specific characteristics and holdings. Further, the proposed amendments preclude the ability and flexibility of asset managers to pursue investment strategies and utilize asset classes that certain investors desire and have come to expect from open-end funds. Open-end funds managed by Principal AM have already adopted and implemented liquidity risk management programs which have enabled those funds to effectively identify and manage liquidity risks, including potential for material shareholder dilution, in the respective best interests of each fund. The proposed amendments are simply not necessary and would result in costs to investors outweighing any potential benefits.

VI. The Proposed Rule's revised reporting requirements are overly-burdensome and excessively costly

Batches of Forms N-PORT are currently required to be filed by registered management investment companies on a quarterly basis, and each Form N-PORT filing contains monthly information throughout the reporting period. Such Form N-PORT filings must be filed within sixty days after a registered management company's fiscal quarter end. However, only Form N-PORT information for the third month in each fiscal quarter is made publicly available, and such information is only made publicly available sixty days after the end of the fiscal quarter.

The proposed amendments would significantly increase Form N-PORT reporting frequency and compress the timeframe within which such filings must be submitted. Specifically, the proposed amendments would require Form N-PORT to be filed monthly within thirty days after the end of each month. Additionally, the proposed amendments would increase public availability of Form

N-PORT information by making each month's Form N-PORT information publicly available sixty days after the end of each month. The proposed amendments would also newly require with Form N-PORT a filing of a Schedule of Investments for each month in the form and content required by Regulation S-X.

Higher Reporting Frequency and Compressed Timeframes

Principal strongly believes that the amendment to the reporting timeliness and frequency of SEC Form N-PORT from quarterly to monthly unnecessarily compresses the reporting timeframe reporting and is unduly costly without proportionate benefits for investors. Then, additionally requiring a monthly Schedule of Investments compliant with Regulation S-X would be even more costly and resource intensive than a monthly filed Form N-PORT filing itself. Further, the more frequent reporting of material non-public information unnecessarily increases the risk that such information could be misappropriated.

Reporting on Form N-PORT is an extensive and detailed process requiring significant resources including the acute involvement of many Principal AM staff, internal systems, external vendors, and service providers. Form N-PORT reporting also requires much oversight of service providers, including significant review and quality control prior to submitting a filing. When issues arise, which could be late in the reporting process, staff must investigate the root cause, consult various parties, resolve the issue, and complete the filing on a very tight timeline. At any point in the process, such issues can cause significant delays within the reporting timeline. Requiring monthly Form N-PORT filings would add significantly more strain on those employees responsible for compiling, verifying, and submitting Form N-PORT and increase the risk of errors during the N-PORT reporting process. To appropriately mitigate those additional risks, advisers and funds could potentially be required to incur significant costs such as hiring additional staff or enhance internal systems. Ultimately, these costs would likely be passed on to fund shareholders.

In contrast to these added risks and costs, Principal does not believe there would be any additional benefit to investors from the proposed additional reporting. Open-ended registered investment companies managed by Principal AM already disclose their holdings on a monthly basis by posting the holdings on their respective websites. Principal believes that disclosure of portfolio holdings on a fund's website is an approach better tailored to ensuring appropriate information is timely made available to retail investors.

Further, requiring a monthly Regulation S-X compliant Schedule of Investments significantly compounds the complexity and attendant risks and costs described above. In contrast, disclosing monthly portfolio holdings in compliance with Regulation S-X adds little value to fund investors and other market participants since portfolio holdings are already generally available on the funds' respective websites. Principal has analyzed website traffic data directly related to the first and third fiscal quarter Regulation S-X compliant schedules of investments that are posted to our website in compliance with Rule 30e-3. The number of external visitors accessing the content is very small as compared to the website in general, which indicates that this information is not highly sought out by investors today. Principal does not believe that reporting this more frequently would be valuable for investors.

Classification: Internal Use

Public Availability on a Monthly Basis

In the Proposing Release, the SEC notes its belief that many funds voluntarily provide their complete portfolio holdings on their websites on a monthly basis. However, Principal AM believes that publicly disclosing holdings on Form N-PORT on a monthly basis instead of quarterly is inconsistent with some registered investment companies' current portfolio holdings disclosure policies and procedures. Further, Principal believes that disclosing such portfolio holdings information on a monthly basis could be harmful to those funds with sensitive portfolio management positions and strategies by exposing them to predatory trading practices, such as front running, and by permitting other market participants to more easily copycat the funds' investment strategies without paying for research. These practices could reduce those funds' returns and hurt fund shareholders.

Principal appreciates this opportunity to provide comment. For all of the reasons outlined in this letter, we urge the Commission to withdraw the Proposed Rule to prevent significant and irreparable harm to the retirement security of millions of Americans.

Sincerely,

Chris Payne
Vice President and Head of Government Relations

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