

Division of Investment Management

### **Investment Company Reporting Modernization Frequently Asked Questions**

The staff of the Division of Investment Management has prepared the following responses to questions related to the investment company reporting modernization reforms adopted in October 2016 and revised in December 2017. The staff expects to update this document from time to time to include responses to additional questions. These responses represent the views of the staff of the Division of Investment Management. They are not a rule, regulation, or statement of the Commission, and the Commission has neither approved nor disapproved these FAQs or the interpretive answers to these FAQs. The October 2016 adopting release for the investment company reporting modernization reforms (“Adopting Release”) is available at: <https://www.sec.gov/rules/final/2016/33-10231.pdf>. The December 2017 release (“2017 Amendments”) is available at: <https://www.sec.gov/rules/final/2017/33-10442.pdf>.

If you have questions about filing requirements related to Form N-CEN and Form N-PORT, please contact the IM Investment Company Regulation Office at 202-551-6792. Those who encounter problems during the testing or filing of those forms or who have questions regarding the technical specifications may email [StructuredData@sec.gov](mailto:StructuredData@sec.gov) with the subject line “NPORT/NCEN Feedback.”

### **Compliance Dates and General Filing Obligations**

1. *What is the schedule for test filing new Forms N-PORT and N-CEN? And how may the schema be obtained?*

The schemas for Forms N-PORT and N-CEN are available for viewing at <https://www.sec.gov/oit/Article/info-edgar-tech-specs.html>.

Test filings will be permitted as indicated in the Commission’s [Notice to Forms N-CEN and N-PORT Filers](#). During the testing period, filers should identify their filings as “test” filings. “Live” filings will not be permitted, and the system will reject such filings, until the compliance dates for the forms. Test filings will not be evaluated for compliance with the forms or be available for public viewing.

2. *What are the respective compliance dates for Form N-PORT, Form N-CEN, the amendments to Regulation S-X, and the securities lending disclosures related amendments to Forms N-1A, N-3, and N-CSR?*

**Form N-PORT:** As discussed in the Adopting Release, larger entities—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 of the fund—have a compliance date of June 1, 2018. Funds must file reports on Form N-PORT no later than 30 days after the end of each month. Compliance should be based on reporting period-end date.

The 2017 Amendments modified the framework contemplated by the Adopting Release. Under the modified approach, larger entities will maintain in their records the information that is required to be included in Form N-PORT, in lieu of filing reports with the Commission, until April 1, 2019.<sup>1</sup> Like all fund records under the Investment Company Act, this information is subject to examination by Commission staff.<sup>2</sup> As a result, funds in larger fund groups that previously would have been required to submit their first reports on Form N-PORT on EDGAR no later than July 30, 2018 (for the period ending June 30, 2018) will now be required to submit their first reports on EDGAR no later than April 30, 2019 (for the period ending March 31, 2019).<sup>3</sup>

In addition, smaller fund groups will now submit their first reports on Form N-PORT by April 30, 2020 (for the period ending March 31, 2020). Smaller fund groups are not subject to a requirement to prepare and retain as a record the information required on Form N-PORT.<sup>4</sup>

Form N-CEN: The compliance date for Form N-CEN is June 1, 2018 for all funds. Funds must report on Form N-CEN within 75 days of the fund's fiscal year-end (75 days after the calendar year-end for unit investment trusts). Compliance should be based on reporting period-end date. For example, a fund with a June 30 fiscal year-end should make its first filing for the year ended June 30, 2018 on Form N-CEN by September 13, 2018. A fund with a May 31 fiscal year-end would not need to make its first filing on Form N-CEN until the fiscal year ending May 31, 2019 (with such filing being made within 75 days of that date) because May 31, 2018 is prior to Form N-CEN's compliance date.

Regulation S-X: The compliance date for these amendments is August 1, 2017. Compliance should be based on reporting period-end date. For example, financial statements contained in a report on Form N-CSR for the period ended June 30, 2017, need not comply with the amendments to Regulation S-X, even though that report is required to be filed by Sept 8, 2017 (*i.e.*, 70 days after the period end date). Financial statements in reports on Forms N-CSR, N-Q, 10-K or 10-Q (whether quarterly, semi-annual, or annual) for the period ended August 31, 2017, should comply with the amendments to Regulation S-X since the period ends after the compliance date of August 1, 2017.

Securities lending disclosures: The compliance date for these amendments to Form N-1A, N-3, and N-CSR is August 1, 2017. Compliance should be based on reporting period-end date. Thus, open-end funds and separate accounts offering variable annuity contracts that have

<sup>1</sup> The information maintained in the fund's records will be treated as a record under section 31 of the Investment Company Act and rule 31a-1 thereunder and subject to the requirements of rule 31a-2. *See* rule 31a-2(a)(2) (providing that funds must preserve certain records for a period not less than six years from the end of the fiscal year, the first two years in an easily accessible place); *see generally* rule 31a-2(f) (requirements for electronic records). Because rule 31a-2 provides for preservation for not less than six years from the end of the fiscal year, the 2017 Amendments will cease to be effective March 31, 2026.

<sup>2</sup> 15 U.S.C. 80a-30(b)(1).

<sup>3</sup> Note that March 31, 2019 is a Sunday. Per Instruction A to Form N-PORT, funds must report information about their portfolios and each of their portfolio holdings as of the last business day, or last calendar day of the month.

fiscal-year ends following the compliance date should reflect these amendments as part of their next annual update of their prospectuses. For example, a July 31 fiscal year-end open-end fund should first reflect the amendments in its prospectus update following the July 31, 2018 fiscal year-end. For closed-end funds, the amendments to Form N-CSR should be reflected beginning with the first Form N-CSR relating to an annual reporting period ended after the compliance date. Thus, a February 28 fiscal year-end closed-end fund should first reflect the amendments in its report on Form N-CSR for the annual reporting period ending February 28, 2018.

3. *What are the compliance dates for the reporting of liquidity information on Forms N-PORT and N-CEN?*<sup>5</sup>

Compliance dates for the liquidity information on Form N-CEN is December 1, 2018 for larger entities and June 1, 2019 for smaller entities. The compliance dates for the liquidity information on Form N-PORT is June 1, 2019 for larger entities, and December 1, 2019 for smaller entities. Additional compliance dates for the amendments adopted in the Commission's rule for investment company liquidity risk management programs are available at <https://www.sec.gov/rules/interim/2018/ic-33010.pdf>.<sup>6</sup>

4. *The 2016 adopting release for fund liquidity programs amended Form N-CEN to add new Items C.20 and E.5. The compliance date for responding to these items is December 1, 2018 for larger entities. Should a fund with a fiscal year-end falling before the Dec. 1, 2018 compliance date respond to these items in its report on Form N-CEN if it files that report on or after the Dec. 1, 2018 date?*

No. A fund with a fiscal year-end that falls before the Dec. 1 compliance date for Item C.20 and E.5 on Form N-CEN should not include a response to these items in its report on Form N-CEN. A fund should begin responding to these items on Form N-CEN filings only when its fiscal year end falls on or after the Dec. 1, 2018 compliance date.

4.5. *When determining whether a fund is part of a "group of related investment companies" that has reached the \$1 billion threshold that distinguishes larger and smaller entities for Form N-PORT compliance date purposes, should assets of private funds be included in calculating the \$1 billion threshold?*

<sup>5</sup> See Investment Company Liquidity Risk Management Program, Investment Company Act Release No. 32315 (Oct. 13, 2016) [81 FR 82142 (Nov. 18, 2016)] (adopting release).

<sup>6</sup> See Investment Company Liquidity Risk Management Programs; Commission Guidance for In-Kind ETFs (Feb. 22, 2018) [83 FR 8342 (Feb. 27, 2018)] (interim final rule) at section II.D (compliance date chart).

No. A private fund relying on section 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 is not an investment company and thus would not be part of a group of related investment companies.<sup>7</sup>

~~5-6.~~ *What are funds' filing obligations with respect to Form N-Q and Form N-CSR once they are required to comply with Form N-PORT?*

Once a fund begins filing reports on Form N-PORT, it will no longer be required to file reports on Form N-Q.<sup>8</sup> Moreover, when a fund ceases filing reports on Form N-Q, its certification on Form N-CSR must cover any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year, rather than the registrant's most recent fiscal quarter as currently required.<sup>9</sup> The 2017 Amendments provide that Form N-Q is rescinded on May 1, 2020.<sup>10</sup>

As noted above, a fund with a June 30 or December 31 fiscal year-end that is part of a larger entity should first file a report on Form N-PORT, relating to the month ended March 31, 2019, no later than April 30, 2019 (30 days after the reporting period end date). No later than May 30, 2019 (which is 60 days after the reporting period end date), the fund should file Exhibit F to Form N-PORT containing the fund's Regulation S-X compliant portfolio schedule, listing holdings as of March 31, 2019 (rather than filing a report on Form N-Q containing the portfolio schedule). No later than September 8, 2019 (70 days after the reporting period end date), the fund should also file a report on Form N-CSR for the semi-annual or annual period ended June 30, 2019, with a certification covering any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year.

~~6-7.~~ *When may money market funds cease filing reports on Form N-Q?*

While the 2017 Amendments extend the effective date for the rescission of Form N-Q until May 1, 2020, money market funds that were relying on the Adopting Release's August 1, 2019 rescission date for Form N-Q do not have to file reports on Form N-Q after August 1, 2019 despite the new rescission date of May 1, 2020.<sup>11</sup>

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<sup>7</sup> Section 3(c)(1) excludes from the definition of "investment company" any issuer whose outstanding securities (other than short-term paper) are beneficially owned by not more than one hundred persons and which is not making and does not presently propose to make a public offering of its securities. Section 3(c)(7) excludes from the definition of "investment company" any issuer, the outstanding securities of which are owned exclusively by persons who, at the time of acquisition of such securities, are qualified purchasers, and which is not making and does not at that time propose to make a public offering of such securities.

<sup>8</sup> See Adopting Release, at section II.B.1.

<sup>9</sup> See Adopting Release, at section II.B.2.

<sup>10</sup> See 2017 Amendments, at section I.D.

<sup>11</sup> See 2017 Amendments at n.35.

Thus, a money market fund with a fiscal year-end of February 28 or August 31 that was relying on the August 1, 2019 rescission date for Form N-Q will make its final Form N-Q filing for the quarter ended May 31, 2019. This is because the filing is due by July 30, 2019 (60 days after the reporting period end date), which is before August 1, 2019, the revised rescission date for Form N-Q.

A money market fund with a fiscal year-end of March 31 or September 30 that was relying on the August 1, 2019 rescission date for Form N-Q will not make a Form N-Q filing for the quarter ended June 30, 2019 (because the filing will be due after August 1, 2019). Such a fund's final Form N-Q filing will cover the quarter ended December 31, 2018. Moreover, when a money market fund ceases filing reports on Form N-Q, its certification on Form N-CSR must cover any change in the registrant's internal control over financial reporting that occurred during the most recent fiscal half-year, rather than the registrant's most recent fiscal quarter as currently required.<sup>12</sup>

Money market funds must, however, continue to post their portfolio holdings on a web site monthly pursuant to rule 2a-7(h)(10) under the Investment Company Act of 1940 and file Form N-MFP monthly pursuant to rule 30b1-7 under the Investment Company Act of 1940.<sup>13</sup>

*7-8. If a fund's fiscal year ends on April 30 or May 31, then the fund's final filing on Form N-SAR (due 60 days after its fiscal year-end) would be after Form N-SAR is scheduled to be rescinded on June 1, 2018. May the fund file its final report for FY 2017-2018 on either Forms N-SAR or N-CEN?*

The staff believes that funds with a fiscal year-end on April 30 or May 31, 2018 may file their final reports for fiscal year 2017-2018 on either Form N-SAR (due 60 days after the reporting period end) or Form N-CEN (due 75 days after the reporting period end).

Although reports on Form N-SAR will no longer be required to be filed after June 1, 2018, EDGAR will accept Form N-SAR filings, including amendments to previously filed reports on Form N-SAR, until June 30, 2019.

*8-9. If a fund's fiscal year falls on October 31 or November 30, 2018 (and its mid-year falls on April 30 or May 31, 2018), then the fund's mid-year filing on Form N-SAR (due 60 days after its fiscal mid-year) will be after Form N-SAR is scheduled to be rescinded on June 1, 2018. Will the fund still be expected to file a report for that mid-year period on Form N-SAR?*

No. Because reports on Form N-CEN will encompass the mid-year period ending on April 30 or May 31, 2018, and Form N-SAR will be rescinded on June 1, 2018, the staff would

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<sup>12</sup> See Adopting Release, at section II.B.2.

<sup>13</sup> Since money market funds file monthly reports on Form N-MFP, they will not have to file monthly reports on Form N-PORT following the rescission of Form N-Q.

not expect such funds to file a separate mid-year report on Form N-SAR (*i.e.*, submission type NSAR-A) for the mid-year period ending April 30 or May 31, 2018.

### **Form N-PORT**

1. *If a fund uses T+1 accounting to report portfolio holdings on Form N-PORT, may it calculate and report portfolio- and security-level risk metrics on a T+0 basis in Item B.3 and Items C.9.f.5, C.11.c.vii, and C.11.g.iv?*

The Commission staff would not object if a fund distinguishes between the basis on which it calculates portfolio holdings and the basis on which it calculates risk metrics. Thus, the staff believes that a fund that uses T+1 accounting for daily NAV calculation and for purposes of reporting portfolio holdings on Form N-PORT may calculate and report security- and portfolio-level risk metrics required by the form on a T+0 basis, provided that the reported information also complies with General Instruction G.<sup>14</sup>

2. *How will Form N-PORT Part F attachments be added to filings made on Form N-PORT?*

Funds must file reports on Form N-PORT up to 30 days after the end of each month, but may file Part F attachments up to 60 days after the end of the reporting period. As will be detailed more fully in the EDGAR Filing Manual, Part F attachments and amendments to those attachments should be filed as EDGAR submission types “NPORT-EX” and “NPORT-EX/A,” respectively. Funds should also provide the accession number of the related report on Form N-PORT, so that the Part F submission can be attached to that report by the Commission. Adding the Part F attachment in this manner will not cause the original report on Form N-PORT to be marked as amended in EDGAR. Additional details and instructions will be provided in the EDGAR filing manual.

3. *Some trusts that have multiple series all with the same fiscal year end currently include in their shareholder reports and on Form N-Q portfolio schedules for each of the different series, as well as one set of financial statement notes that cover all of the different series combined into one document. Can funds continue this practice when filing their Form N-PORT Part F attachments?*

Yes. The Part F attachment is designed to ensure that notwithstanding the rescission of Form N-Q, portfolio holdings schedules for the first and third fiscal quarters continue to be presented using the form and content which investors are accustomed to viewing in reports on

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<sup>14</sup> Instruction G to Form N-PORT provides that funds may respond using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors.

Form N-Q and in shareholder reports. The staff therefore believes that the Part F attachment may contain the portfolio schedule for the series making the filing, as well as the portfolio schedules for the other series in the trust with the same fiscal year-end and one set of financial statement notes that cover all of the different series combined into one Part F attachment.

4. *Will reports filed for the month ended September 30, 2019 be the first Form N-PORT filings made public?*

Yes. Reports filed on Form N-PORT for the months ended March 31 through August 31, 2019 will be non-public, while reports filed for the months ended September 30, 2019 and later will be made public (but only those filings for the third month of each fund's fiscal quarter).<sup>15</sup> Commission staff notes, however, that even during the six-month non-public filing period, portfolio holdings information filed as exhibits to Form N-PORT (*i.e.*, Form N-PORT Part F attachments) for the first and third quarters of the fund's fiscal year will be made public.

5. *Form N-PORT requires funds to file reports within 30 days of month-end. How should funds report values for holdings where no market value is available at that point for month-end?*

In response to commenters, the Commission noted in the Adopting Release that while most closed-end funds do strike their NAV on at least a monthly basis, those funds that do not do so may report information on Form N-PORT by using their internal methodologies consistent with how they report internally and to current and prospective investors, as allowed by General Instruction G to Form N-PORT.<sup>16</sup> Funds that value their holdings by relying upon their internal methodologies in this manner may provide additional information in Part E (explanatory notes to Form N-PORT) explaining the internal methodology.

6. *Item B.5(a) requires monthly total returns of the fund for each of the preceding three months to be reported in accordance with the methodologies outlined in Item 26(b)(1) of Form N-1A, Instruction 13 to sub-Item 1 of Item 4 of Form N-2, or Item 26(b)(i) of Form N-3, as applicable. The methodologies in Forms N-1A and N-3 require sales loads and redemption fees charged to all shareholder accounts to be deducted when calculating returns. The disclosures in Forms N-1A and N-3 are intended for annual reporting, while the information provided on Form N-PORT will be monthly. It is unclear how funds would pro-rate sales loads and redemption fees for purposes of reporting a net monthly result, and funds may take a variety of approaches. To improve consistency of the monthly returns information across the funds that will report*

<sup>15</sup> The SEC states in the Adopting Release that it has “determined to maintain as nonpublic all reports filed on Form N-PORT for the first six months following [the compliance date].” The SEC further determined in the 2017 Amendments that the first filings on Form N-PORT will occur for the period ending on March 31, 2019.

<sup>16</sup> See Adopting Release at n.460 and accompanying text.

responses to Item B.5(a), may funds report monthly returns without deducting those sales loads and fees?

Yes. The staff would not object if funds reported returns in response to Item B.5(a) without deducting sales loads and redemption fees charged to all accounts.

Initial and deferred sales loads and redemption fees are deducted on a one-time basis at the time of the initial investment or sale of the fund shares, respectively. When funds report annual average total return performance on Forms N-1A and N-3, they show the effect of these loads and fees based on the Form requirement's longer, non-cumulative fixed periods of one, five, and ten-years.<sup>17</sup> In contrast, Form N-PORT would require this information for a series of months, which has raised questions regarding how funds would pro-rate sales loads and redemption fees to reflect them in each month's reported performance. The staff believes that deducting these sales loads and redemption fees for each month in the series over an indefinite number of reports could give investors the impression that these are ongoing fees and overstate the effect on performance.

The staff expects that funds reporting returns without deducting sales loads and redemption fees will note this in Part E (explanatory notes to Form N-PORT).

6-7. Item B.5.a of Form N-PORT requires funds to report monthly total returns for each of the preceding three months for each class of a multiple class fund, and Item B.5.b of Form N-PORT requires funds to report class identification numbers, if any, of the class(es) for which returns are reported. What happens if a class terminates during the reporting period?

A fund should report all information for each of its classes through the reporting period in which the class existed. For example, if a fund class terminates in January, the fund should continue reporting the Items B.5.a and B.5.b information for that class through its March Form N-PORT filing (which would be due thirty days after March 31). The March Form N-PORT filing should include monthly total returns for January, which should include the return information for the terminated class, as well as return information for February and March, which would not include any return information for the terminated class. Funds instead should report "N/A" for the return information for the terminated class for February and March. See Instruction G to Form N-PORT.<sup>18</sup>

7-8. Item B.6 of Form N-PORT requires funds to provide aggregate flow information for the preceding three months. How should master portfolios report flow information?

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<sup>17</sup> See, e.g., Items 4(b)(2) and 26(b)(1) of Form N-1A.

<sup>18</sup> Instruction G states that, "[i]f a sub-item requests information that is not applicable (for example, an LEI for a counterparty that does not have an LEI), respond N/A."



The staff believes that master portfolios should provide flow information at the master portfolio level for transactions between the master portfolio and its feeder funds.

~~8-9.~~ *Items C.2.b and C.2.c require funds to report, for each investment, the currency in which the investment is denominated and the value in U.S. dollars (and if the currency is not denominated in U.S. dollars, the exchange rate used to calculate value). How should funds report this information for foreign forward currency contracts?*

For foreign forward currency contracts, funds must report value in U.S. dollars in Item C.2.c, however the Commission staff would not object if funds report “N/A” for the other reporting requirements in Items C.2.b and c because that information is separately reported in Items C.11.e.i and ii (amount and description of currency sold and purchased, respectively).

~~9-10.~~ *For purposes of Item C.4 (asset and issuer type), how should funds report investments in shares of other funds?*

In responding to Item C.4.a (asset type) for investments in the shares of other funds, the staff believes that the reporting fund should report the asset type as either “short-term investment vehicle” (e.g., money market fund, liquidity pool, or other cash management vehicle) or “equity-common” (other funds).

In responding to Item C.4.b (issuer type) for investments in other funds, the staff believes that the reporting fund should report the issuer as “registered fund” or “private fund,” as appropriate.

~~10-11.~~ *For purposes of Item C.6 (identifying restricted securities), may funds consider the guidance provided by the Commission in the Adopting Release for the amendments to Article 12 of Regulation S-X regarding identification of restricted investments? For example, the Adopting Release provides that, for the amendments to Regulation S-X, a fund should indicate that a derivative that cannot be sold as of the reporting date because of a restriction applicable to the investment itself (as opposed to, e.g., illiquidity in the markets) should be identified as a restricted investment.<sup>19</sup>*

When reporting restricted securities on Form N-PORT, Commission staff believes that funds may consider the Commission guidance provided for amendments to Article 12 of Regulation S-X regarding identification of restricted securities in financial statements.

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<sup>19</sup> See Adopting Release, at section II.C.4. See also rule 12-13, n. 6 of Regulation S-X; see also rules 12-13A, n. 4; 12-13B, n. 2; 12-13C, n. 5; and 12-13D, n. 6 of Regulation S-X.

~~11-12.~~ *Item C.9.b.i of Form N-PORT requires funds to select the category that most closely reflects the coupon type of debt securities among the following: fixed, floating, variable, none. How should funds distinguish between debt securities that have a floating versus a variable rate of return?*

The staff believes that funds may look to definitions in rule 2a-7 under the Investment Company Act to make these determinations. Rule 2a-7(a)(13) defines a “floating rate security,” in part, as a security the terms of which provide for the adjustment of its interest rate whenever a specified interest rate changes. Rule 2a-7(a)(27) defines a “variable rate security,” in part, as a security the terms of which provide for the adjustment of its interest rate on set dates (such as the last day of a month or calendar quarter).

~~12-13.~~ *Item C.10.f requires funds to report certain collateral information for securities subject to repurchase agreements, including the principal amount, value of collateral, and category of investments that most closely represents the collateral. Must that information be reported for each category of investments, and to what extent can that information be aggregated?*

A fund should separately report this information for each category of investments. However, the staff would not object if funds aggregated the principal amount and value of collateral for each category of investments, regardless of whether the collateral is issued by the same issuer. For example, a fund with a repurchase agreement collateralized by approximately \$2 million in various asset-backed securities and \$1 million in corporate debt securities might respond to Item C.10.f by reporting, in part, as follows:

C.10.f.i. \$2,000,000, C.10.f.ii. \$2,001,932.45, C.10.f.iii. asset-backed securities

C.10.f.i. \$1,000,000, C.10.f.ii. \$1,000,412.23, C.10.f.iii. corporate debt securities

~~13-14.~~ *Item C.11.c.iii.2 contemplates a tiered reporting structure for the reporting of derivatives where the underlying asset is an index or basket of investments. If the index's or custom basket's components are not publicly available and the notional amount of the derivative represents greater than 1%, but 5% or less, of the net asset value of the fund, the fund will provide the name, identifier, number of shares or notional amount or contract value as of the trade date, and value, for (i) the 50 largest components in the index and (ii) any other components where the notional value for that component is over 1% of the notional value of the index or custom basket. Likewise, if the index's or custom basket's components are not publicly available and the notional amount of the derivative represents more than 5% of the net asset value of the fund, the fund will provide the name, identifier, number of shares or notional amount or contract value as of the trade date, and value, for all of the index's or custom basket's components. Can funds voluntarily report information about all the underlying index components even when such disclosure is not required?*

Yes.

~~14-15.~~ *For Form N-PORT and in the amendments to Regulation S-X, the reporting of notional amount is required for many different derivatives investments, but can be calculated in different ways. Is there a prescribed calculation of notional amount that funds should follow?*

The Commission staff understands that funds currently use different methods for calculating notional amount of a derivatives investment. For example, the staff understands that some common methods used by funds for determining a derivative transaction's notional amount may include the methods listed in Table 1 on page 69 of the Derivatives Proposing Release.<sup>20</sup> However, the staff notes that funds would not delta-adjust the notional amount for options, as reflected in Table 1, because Form N-PORT separately requires delta and Article 12 of Regulation S-X specifically requires notional amount without a delta adjustment.

~~15-16.~~ *Should funds report TBAs on Form N-PORT as derivatives?*

“To Be Announced” or “TBAs” is a phrase commonly used to describe forward mortgage-backed securities trades. The term TBA is derived from the fact that the actual mortgage-backed security that will be delivered to fulfill a TBA trade is not designated at the time the trade is made. The staff recognizes that some funds currently disclose TBAs in their financial statements either as derivatives or securities, depending on, among other factors, whether TBAs are cash settled (derivative) or physically settled (security).

Instruction G to Form N-PORT provides that funds may respond using their own internal methodologies and the conventions of their service providers, provided the information is consistent with information that they report internally and to current and prospective investors. Thus, the staff believes that to the extent funds categorize TBAs as derivatives in their portfolio holdings, as reported internally and to current and prospective investors, they may also do so in their reports on Form N-PORT.

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*17. If a registrant or series thereof has liquidated, merged, or is otherwise terminated and has no remaining investors or investments, but the registrant has not yet deregistered, does the fund still need to file reports on Form N-PORT?*

*No. The staff would not object if such a fund did not file reports on Form N-PORT. The staff believes that requiring filing on Form N-PORT under those circumstances would provide little relevant information for the Commission, investors, and other market participants.*

<sup>20</sup> See [Use of Derivatives by Registered Investment Companies and Business Development Companies, Investment Company Act Release No. 31933 \(Dec. 11, 2015\) \[80 FR 80884 \(Dec. 28, 2015\)\]](#) (“Derivatives Proposing Release”), at text following n.162.

As a reminder, funds should deactivate the identifiers for a series and/or class (or contract) via the Series and Classes (Contracts) Information Page (available as a section of the EDGAR filer website, which is available at <https://www.edgarfiling.sec.gov>) when the series and/or class (contract) has liquidated, merged, or is otherwise terminated.<sup>21</sup>

18. Does a new fund that has an effective registration statement under the 1933 Act, but whose shares have not yet been publicly offered, need to file Form N-PORT?

No. The staff would not object if a fund whose registration statement under the 1933 Act has been declared effective or has become effective automatically under the 1933 Act, and whose shares have not yet been publicly offered, does not file reports on Form N-PORT.<sup>22</sup> The staff believes that not requiring reports on Form N-PORT during this period would provide cost savings to funds without the loss of information needed to protect investors (e.g., information used in examination, enforcement, and monitoring the fund or in assisting the staff's review of fund registration statements and disclosures).

A new fund that publicly offers its shares for the first time would be required to file its first report on Form N-PORT no later than 30 days after the end of that month, reflecting the fund's portfolio as of the end of that month. For example, a new fund that publicly offers its shares for the first time on July 2, 2019 must file its first report on Form N-PORT by August 30, 2019, reflecting the fund's portfolio as of July 31, 2019.

#### **Regulation S-X**

1. *Rules 12-13, 12-13A, 12-13B, 12-13C, 12-13D, and 12-14 prescribe information to be presented for derivatives contracts, other investments, and investments in affiliates. The rules contemplate a tabular format where each row is an individual contract or investment, and each column is a specified data element (e.g., description, number of contracts, expiration date, notional amount). Must the columns appear in the exact order specified in the rules, and to the extent that certain columns contain the same information, can such columns be merged if the heading of the merged column appropriately discloses what the information represents?*

The staff believes that the order of the columns need not be the same as the order set forth in the rules. Additionally, when columns contain the same information, the staff believes that the information may be provided in a single column provided that the heading to the column clearly

<sup>21</sup> See Rulemaking for EDGAR System, Investment Company Act Release No. 26990 (July 18, 2005) [70 FR 43558 (July 27, 2005)] at text surrounding nn. 25, 55 (noting that funds have a duty to keep the information regarding their series and classes up to date and providing more information about how funds should deactivate series and class identifiers).

<sup>22</sup> Cf. General Instruction A (providing that a registered fund that has filed a registration statement with the SEC registering its securities for the first time under the Securities Act of 1933 is not required to file reports on Form N-PORT for any reporting period or portion thereof prior to the date on which that registration statement becomes effective or is withdrawn).

discloses what the information represents. For example, when the value of a futures contract is the same as the unrealized appreciation or depreciation on the contract, the value and unrealized appreciation or depreciation on the contract may be presented under one column with a heading such as “Value and unrealized appreciation/depreciation.”

2. *Article 12 of Regulation S-X requires, in certain circumstances, for derivatives where the underlying asset is an index or basket of investments, that funds disclose the 50 largest components in the index or custom basket. How should short positions be treated for these purposes? Will every underlying instrument have a notional value to determine this calculation?*

For purposes of these calculations, the staff believes that the notional values of short positions should be treated in terms of their absolute values because Article 12 requires that the fund disclose the largest components of an index or basket and the staff believes that the magnitude of a component does not depend on whether the position is long or short.

The staff recognizes that all components would have a notional amount or other metric to evaluate the magnitude of the components in the index or custom basket, although the staff believes that the metric utilized could be determined differently based on the nature of the investment. For example, notional amount should be used for swaps, while the staff believes par value and value could be used for bonds and equities, respectively.

3. *Article 12 of Regulation S-X requires, in certain circumstances, for derivatives where the underlying asset is an index or basket of investments, that funds disclose for each component of the index or custom basket a “description of the underlying investment as required by [rules] 210.12-12, 12-13, 12-13A, 12-13B or 12-13D as part of the description.” Rules 12-12, 12-13, 12-13A, 12-13B and 12-13D, in turn, require a fund to disclose information about each investment in columns, and each column has notes describing certain requirements. Do funds need to include in the description of each component of an index or custom basket all of the information required by the notes to all of the columns in rules 12-12, 12-13, 12-13A, 12-13B or 12-13D, or only the information required by the notes in certain columns related to the description of the components?*

When providing a description of the components of the index or custom basket, the staff would not object if funds limit their disclosures to the information required by the column in each of the tables included in Article 12 that relate to the description of the instrument, including any notes in that column. For example, if the underlying component of the index or basket of investments is a derivative that would normally be presented in accordance with rule 12-13 of Regulation S-X, the staff believes that the fund should provide the information required by

Column A (description), including the notes to Column A.<sup>23</sup> The staff believes, if the underlying component is a security that would normally be presented in accordance with rule 12-12 of Regulation S-X, the fund would provide the information required by Column A of rule 12-12 (related to the name of the issuer and the title of the issue), including the notes to Column A.<sup>24</sup>

4. Article 12 of Regulation S-X requires a fund to assess, in certain circumstances, where the underlying asset is an index or basket of investments, whether the notional amount of a derivative contract exceeds one percent of the net asset value of the registrant as of the close of the period. If so, a fund must disclose the 50 largest components in the index or custom basket and any other components where the notional value for that component exceeds one percent of the “notional value of the index or custom basket.” Can the staff provide an example to more clearly illustrate how funds should perform these calculations?

Take, for example, a fund that has entered into a swap on a custom basket that provides: (i) long exposure to ABC group of equity securities, whose components’ aggregate notional value is \$51; and (ii) short exposure to XYZ group of equity securities, whose components’ aggregate notional value is \$50.

<u>Custom basket components</u>	<u>Notional value</u>
<u>Long exposure to ABC equity securities</u>	<u>\$51</u>
<u>Short exposure to XYZ equity securities</u>	<u>\$50</u>
<hr/>	
<u>Notional Value of Custom Basket</u>	<u>\$101</u>

The fund would be required to determine whether the swap contract’s notional amount, \$101 in this example, exceeds 1% of net asset value of the fund as of the close of the period, in order to determine whether the fund is required to disclose the 50 largest components in the custom basket. If the fund is required to disclose the 50 largest components, the fund must also disclose any other components whose notional value exceeds one percent of the “notional value of the index or custom basket.” The “notional value of the index or custom basket” in this example would be \$101, the sum of the notional values of all the components of the index or custom basket. The fund would thus disclose each component, in addition to the 50 largest, whose notional value exceeds \$1.01.

5. Article 12 of Regulation S-X requires, in certain circumstances, for derivatives where the underlying asset is an index or custom basket of investments, that funds disclose the percentage value attributed to certain of the components as compared to the custom basket’s net assets.<sup>25</sup>

<sup>23</sup> See, e.g., Rule 12-13, nn. 1, 2, and 3 of Regulation S-X.

<sup>24</sup> See, e.g., Rule 12-12, nn. 1, 2, 3, and 4 of Regulation S-X.

<sup>25</sup> See rules 12-13, n. 3 and 12-13C, n.3 of Regulation S-X.

How may a fund comply with this requirement given that a fund generally would not calculate the net assets of a custom basket?

For purposes of calculating the percentage value attributed to certain components in an index or custom basket, a fund would disclose the value of the component compared to the value of the derivative on the custom basket. Alternately, the staff would not object if the fund disclosed the value of the component relative to the fund's (as opposed to the custom basket's) net assets, provided that the heading to the column clearly discloses what the information represents. The staff believes that such a disclosure is consistent with the fund's current presentation of the categories of investments in the schedule of investments.<sup>26</sup>

4-6. Rules 12-13 through 12-13D require funds to "[i]ndicate by an appropriate symbol each investment which cannot be sold because of restrictions or conditions applicable to the investment."<sup>27</sup> Certain derivatives transactions may be subject to limitations such that they cannot be "sold," but the fund would be able to exit the transaction through other means, such as through the execution of an offsetting transaction. For example, a fund would exit a futures transaction by entering into an offsetting transaction. How should the fund treat these types of transactions for the purposes of rules 12-13 to 12-13D?

The Commission staff recognizes that a fund may exit derivatives transactions through means other than sale, such as through a negotiated agreement with the fund's counterparty, a transfer to another party, or close out of the position through execution of an offsetting transaction.<sup>28</sup> The staff believes that a fund should identify a derivatives transaction as restricted if, as of the balance sheet date, the fund would not have been able to exit the transaction.

5-7. Do the disclosures required by rule 12-14 of Regulation S-X regarding investments in and advances to affiliates need to be presented in the schedule of investments, or can they be presented in the notes to the financial statements?

The Commission staff understands that the disclosures required by rule 12-14 relate to investments that are already presented in the schedule of investments under rules 12-12 and 12-13 through 12-13D, and, as such and to preserve the readability of the schedule of investments, would not object if funds chose to provide the additional disclosures required by rule 12-14 in the notes to the financial statements.

6-8. Rule 6-04.6 of S-X requires a fund to "State separately amounts held by others in connection with: (a) short sales; (b) open options contracts; (c) futures contracts; (d) forward

<sup>26</sup> See ASC 946-210-50-1c.

<sup>27</sup> See Rules rules 12-13, n.6; 12-13A, n.4; 12-13B, n.2; 12-13C, n. 5; 12-13D, n.6 of Regulation S-X.

<sup>28</sup> See, e.g., Derivatives Proposing Release, at text following footnote 335.

*foreign currency contracts; (e) swap contracts; and (f) investments-other than those presented in rules 210.12-12, 12-12A, 12-12B, 12-13, 12-13A, 12-13B and 12-13C.” In some cases, however, a fund’s counterparty will collect margin or collateral for all open derivatives transactions between the fund and the counterparty. That is, the fund will post (or receive) a single net amount of margin or collateral for all of the fund’s open transactions. The counterparty will not separately collect margin or collateral for each particular type of transaction, making it not practicable for the fund to identify the portions of any margin or collateral posted by the fund attributable to each of the types of investments specified in Rule 6-04.6. In these circumstances, may a fund instead provide disclosure about the arrangements with counterparties in the notes to the financial statements that includes a description of the rights of setoff and the amounts held by each counterparty in connection with the investments specified in Rule 6-04.6?*

The Commission staff would not object to a fund providing the amounts held by others in connection with derivative contracts by counterparty in the notes to the financial statements under these circumstances, provided that the disclosure also includes the rights of setoff associated with the investments and the effect of the arrangements with counterparties on the fund’s balance sheet.<sup>29</sup>

#### **Form N-CEN**

1. *How should information be reported for Item C.2.a of Form N-CEN (number of authorized classes of shares of the fund) for funds that have not adopted a plan pursuant to rule 18f-3?*

We understand that some open-end funds and exchange-traded funds consist of a series without an “authorized” class (*i.e.*, funds that have not adopted a plan pursuant to rule 18f-3). In this case, the fund would have a class ID only because EDGAR issues every series a corresponding class ID.

The staff believes that a fund without an “authorized” class should report “0” to Item C.2.a (number of authorized classes of shares of the fund). However, as per the requirements of Form N-CEN, the fund must report its ticker and class ID if applicable in response to Item C.2.d (which requests the name, class ID and ticker of each class with shares outstanding).

2. *Item C.10.vii of Form N-CEN requires funds to report information on sub-transfer agents. Are funds required to report information on intermediaries, such as broker-dealers, that provide “sub-transfer agent” or administrative services for their customers whose shares are maintained in omnibus accounts with the fund’s primary transfer agent?*

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<sup>29</sup> See ASC 210-20-50.



No. Item C.10.vii requires funds to report their transfer agent arrangements, including arrangements where systems, transaction processing and services are provided by sub-transfer agents in supporting the fund's primary transfer agent systems and recordkeeping functions (such as part of a remote systems or hybrid or fully outsourced arrangement).<sup>30</sup>

In the staff's view, for purposes of Item C.10.vii, funds do not need to identify intermediary arrangements (e.g., with broker-dealer firms and other intermediaries such as retirement plan third-party administrators) that are administrative service type arrangements (also sometimes referred to as "sub-accounting" and "sub-transfer agent" arrangements), because such firms are engaging with the primary transfer agent as record owners of fund shares and conducting transactions with fund's transfer agent on behalf of their customers who are beneficial or underlying shareholders in funds, and such arrangements are not part of the primary transfer agent's recordkeeping arrangement with the fund, as described above.

3. *If a variable insurance product no longer files post-effective prospectus amendments, for example, because the variable insurance product is no longer being sold,<sup>31</sup> is the registrant still required to file reports on Form N-CEN?*

Variable insurance products are required to file periodic reports with the Commission pursuant to section 30 of the Investment Company Act and therefore must continue to file annual reports on Form N-CEN even when the variable insurance product no longer files post-effective amendments.

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4. *Is the Commission providing a filing tool to allow registrants to manually report data on Form N-CEN as opposed to submitting an XML file? If so, how may the tool be accessed?*

Yes. As an alternative to submitting an XML file, the Commission is providing an online web-based form available on the EDGAR filer website. Registrants may select the "File N-CEN" link on the EDGAR filer website (<https://www.edgarfiling.sec.gov>) and manually input responses to each of the filing questions and items in the form. Filing instructions are included in Chapter 8 (Preparing and Transmitting Online Submissions) of the EDGAR Filer Manual, Volume II (<http://www.sec.gov/info/edgar/edmanuals.htm>).

5. *What are a registrant's obligations with respect to filing reports on Form N-CEN in cases where (i) a registrant has filed, or intends to file, an application on Form N-8F to deregister but has not yet deregistered, or (ii) a series of a multi-series registrant was liquidated, merged, or otherwise terminated?*

<sup>30</sup> See also Adopting Release, at Section II.D.4.c.vi.

<sup>31</sup> See, e.g., Great-West Life & Annuity Insurance Co., SEC Staff No-Action Letter (Oct. 23, 1990).

Generally, a registrant is required to file reports on Form N-CEN until it is deregistered, regardless of whether the registrant has filed, or intends to file, an application to deregister.<sup>32</sup> As a reminder, the staff would generally expect registrants to file an application on Form N-8F with the Commission to deregister if the registrant has merged, liquidated, or otherwise ceased to operate as a registered investment company.<sup>33</sup>

However, a registrant that does not yet have shareholders (other than shares issued in connection with an initial investment to satisfy section 14 of the Investment Company Act) is not required to file reports on Form N-CEN.<sup>34</sup> Additionally, the staff would not expect reports to be filed on Form N-CEN by management companies that have filed Form N-54A to notify the Commission of their election to be regulated as a business development company (“BDC”), since that election would be automatically effective without the need for Commission approval.

For series of a multi-series registrant that were liquidated, merged, or otherwise terminated during the reporting period, the staff would not object if registrants did not report information requested by Part C (additional questions for management investment companies) as to those series. Furthermore, the staff would not expect the registrant to include in its response to Item B.6.a.i (which requests the number of series of the registrant) any series that were terminated during the reporting period. Terminated series must be identified in responses to Item B.6.a.ii. Likewise, the staff would not expect registrants to include in their responses to Item C.2.a (number of authorized classes of shares) any classes that were terminated during the reporting period. Terminated classes must be identified in responses to Item C.2.c.

6. *Should a series be listed as terminated in Item B.6.a.ii even in cases where substantially all of its assets have been transferred to another series of the registrant or another registrant?*

Yes. The staff believes that the series name, Series ID and date of termination should be provided because this will be the last filing the series is making as part of this registrant and with this Series ID. (After the transfer, the assets will be held by a series with a different Series ID, whether because it is a new or existing series of the registrant or a new or existing series associated with another registrant.)

<sup>32</sup> See Adopting Release at note 806 (“We note that even if a fund indicates a filing is its final filing on Form N-CEN, a fund is required to file reports on Form N-CEN until it is deregistered.”).

<sup>33</sup> See rule 8f-1 under the Investment Company Act and Form N-8F (specifying certain circumstances where registered investment companies may file an application with the Commission to deregister).

<sup>34</sup> See General Instruction C to Form N-CEN (registrants with shares outstanding (other than shares issued in connection with an initial investment in order to satisfy section 14(a) of the Investment Company Act) are required to file reports on Form N-CEN at least annually).