The Securities and Exchange Commission proposed amendments to better prepare open-end management investment companies ("open-end funds") for stressed conditions and mitigate dilution of shareholders’ interests. The rule and form amendments incorporate lessons learned from the market events of March 2020 and would improve on the existing framework by:

- Enhancing how open-end funds other than money market funds ("MMFs") and certain exchange traded funds ("ETFs") classify the liquidity of their investments and requiring a minimum amount of highly liquid assets of at least 10 percent of net assets;
- Requiring any open-end fund, other than a MMF or ETF, to use swing pricing and implementing a "hard close" to operationalize this pricing and to improve order processing more generally; and
- Providing for more frequent, timelier, and more detailed public reporting of fund information, including information about funds’ liquidity and use of swing pricing.

Background

Shareholders’ ability to redeem shares on demand is a defining feature of open-end funds. Without effective liquidity risk management, a fund may not be able to make timely payment on shareholder redemptions, and sales of portfolio investments to pay redemptions may result in the dilution of shareholders’ interests. Even when a fund manages its liquidity effectively, transaction costs associated with meeting redemption requests or investing the proceeds of subscriptions can create dilution for fund shareholders. These concerns are heightened in times of stress or for funds invested in less liquid investments. The market disruptions of March 2020 reinforced the fact that liquidity can deteriorate rapidly and significantly.

Proposed Amendments

This proposal would amend rule 22e-4, rule 22c-1, and certain reporting and disclosure forms under the Investment Company Act of 1940.

Improve Liquidity Risk Management and Publicly Report Liquidity Information

To better prepare for the potential effects of stress on a fund’s portfolio, most open-end funds would be required under the rule amendments to incorporate stress into their liquidity
classifications by assuming the sale of a stressed trade size, similar to an ongoing stress test. The proposal also would establish other minimum standards for liquidity classifications, designed to prevent funds from overestimating the liquidity of their investments and provide clearer guideposts. Further, the proposal would amend the liquidity categories, including by removing the less liquid investment category, which includes investments that take longer than seven days to settle, and treating those investments as illiquid to help reduce the risk of a fund not being able to pay redemptions in the period the Investment Company Act requires. Finally, funds would be required to maintain a minimum amount of highly liquid assets of at least 10 percent of net assets to prepare for and help manage stressed conditions. As liquidity classifications would be more objective and comparable, the proposal would provide investors with aggregate information about a fund’s liquidity profile and information related to its use of service providers for liquidity classification.

**Require Use of Swing Pricing and Hard Close**

An open-end fund other than an MMF or ETF would be required to adjust its net asset value ("NAV") so that the transaction price effectively passes on costs stemming from inflows or outflows to the investors engaged in that activity, rather than diluting other shareholders. The proposal would require funds to adopt policies and procedures to adjust a fund’s NAV per share by a swing factor when the fund experiences net redemptions or when net purchases exceed a threshold. The swing factor would reflect bid-ask spread and certain other costs of selling or purchasing a vertical slice of the fund’s portfolio. It would also include an estimate of market impact costs when net redemptions or net purchases exceed a threshold.

Further, the proposal would require a “hard close” for these funds. An investor’s order to purchase or redeem a fund’s shares would be eligible for a given day’s price only if the fund, its transfer agent, or a registered clearing agency receives the order before the time as of which the fund calculates its NAV, typically 4 p.m. ET. The proposed hard close would help operationalize swing pricing by ensuring that funds receive timely flow information, help prevent late trading of fund shares, and improve order processing. The proposal would require additional disclosure related to swing pricing and the hard close.

**Report Fund Information More Frequently**

The proposal would provide the Commission and investors with timelier portfolio information, which is particularly useful in times of changing market conditions. Currently, funds prepare monthly reports and file them at the end of every quarter. Only the report for the third month of the quarter is made public. The proposal would instead require funds to file each month’s report within 30 days after month-end, with the report becoming public 60 days after month-end. This change would apply to all registrants that report on Form N-PORT, including open-end funds other than MMFs, registered closed-end funds, and ETFs organized as unit investment trusts.

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**Additional Information:**

Visit sec.gov to find more information about the proposed rulemaking and the full text of the proposing release. The public comment period will remain open for 60 days after the released is published in the Federal Register.