



Liquidity Risk Management Program Developments



BACKGROUND

- Adopted October 2016
- Current compliance dates for Liquidity Risk Management Program and liquidity-related disclosures on Form N-PORT, N-CEN, N-LIQUID:
 - December 1, 2018 for most funds (fund groups with more than \$1 billion in assets under management)
 - June 1, 2019 for all other funds
- Elements:
 - Written LRMP that requires assessment, management and periodic review of liquidity risk
 - Liquidity classifications into one of four “buckets” and monthly review of liquidity
 - Establishment of “highly liquid investment minimum”
 - Establishment of 15% limit on illiquid investments
 - Board review and approval
 - New disclosure requirements

INDUSTRY RESPONSE

- Major themes:
 - The SEC should re-examine the bucketing requirement due its high cost and difficulty in implementation
 - The SEC should delay the compliance date to give funds more time to develop the technology and processes required to comply with the rule and to implement new form filing requirements
 - The SEC should address Information security concerns surrounding increased reporting requirements
- Actions taken:
 - ICI wrote letter to SEC in July 2017 urging the SEC to allow each fund to create its own classification policies and procedures, among other requests, and to delay compliance dates
 - Treasury Department October 2017 report also urged the SEC to adopt a principles-based approach instead of being overly prescriptive

INDUSTRY CHALLENGES – BUCKETING

- Significant expense to implement and use systems necessary to classify investments
- More time is needed to develop systems
- Systems could generate different results for a given security, which could lead to second-guessing, or systems could generate identical results, which could lead to crowded trades and herding
- Public could be misled by classifications that are inherently subjective
- Potential need to evaluate liquidity more frequently than once a month
- Uncertainty of terms like “reasonably” and “significantly” in new rule

INDUSTRY CHALLENGES – REPORTING REQUIREMENTS

- Information security concerns
 - The SEC's EDGAR filing system was hacked in 2016 and stolen data may have been used for illegal trading activity
- Large amounts of new data required for Forms N-PORT and N-CEN
 - Not easy to access, compile, and report
 - Need more time to develop and test new systems



INDUSTRY CHALLENGES – MANAGEMENT, SEC LEADERSHIP

- Board's role
 - Significant new responsibilities
 - More active role, including review and approval
- Risk management officer
 - Who in the complex should take on the role?
- Rule requires heaving lifting for compliance departments and portfolio management teams
- Leadership changes at SEC add to uncertainty



K&L GATES