

# Investment Management Regulatory Update

August 25, 2014

## SEC Rules and Regulations

- SEC Adopts Final Rules to Reform Money Market Funds

## Industry Update

- SEC Director of Division of Investment Management Speaks on Industry Outreach and Recent Guidance Updates

## SEC Rules and Regulations

### SEC Adopts Final Rules to Reform Money Market Funds

On July 23, 2014, the SEC adopted amendments to rules under the Investment Company Act and related requirements that govern money market funds (“**MMFs**”). The SEC amendments consist of two principal reforms to Rule 2a-7 under the Investment Company Act. The first reform will require institutional prime MMFs to float their net asset values. The second reform permits all MMFs, and under some circumstances requires MMFs, to impose liquidity fees and gates against investor redemption if an MMF’s weekly liquid assets fall below specified thresholds, subject to action by the fund’s board of directors. For a detailed discussion of the Amendments, please see the August 5, 2014 Davis Polk Client Memorandum, [SEC Adopts Money Market Fund Reforms](#).

- ▶ [See a copy of the Adopting Release](#)

## Industry Update

### SEC Director of Division of Investment Management Speaks on Industry Outreach and Recent Guidance Updates

On July 1, 2014, Norm Champ, the Director of the SEC’s Division of Investment Management, delivered remarks at the 2014 Insured Retirement Institute Government, Legal & Regulatory Conference. In his speech, Champ noted the importance of investment products issued by insurance companies in the context of the investment management industry, and detailed the SEC’s efforts to monitor industry trends and to enhance communications between the SEC and industry participants.

**Industry Outreach and Monitoring.** Champ discussed a variety of sources the SEC relies on to monitor new developments in the industry and associated risks. According to Champ, the SEC monitors such developments through (1) reviewing disclosure filings, (2) reviewing requests for no-action and exemptive relief, (3) reviewing third-party resources including the financial press, and (4) meeting with industry participants such as managements and boards of asset management firms and funds.

Another resource highlighted by Champ in monitoring the industry risk is the Risk and Examinations Office (“**REO**”). The REO gathers information and provides financial analysis of the investment management industry for SEC’s policymaking. In addition, according to Champ, the SEC staff is working on recommendations for the SEC to modernize and streamline information reported by funds in order to improve the quality of data received as well as to reduce funds’ reporting burdens.

**Guidance Updates.** Champ explained that the staff is focusing on transparent and direct communications with industry participants by issuing guidance updates that cover various disclosure, regulatory and compliance matters. Champ highlighted several specific guidance updates that, in his view, would be of interest to investment managers and funds in the insurance products space. According to Champ, and pursuant to these guidance updates, funds should, among other things,

- disclose key information, including living benefits and death benefits for relevant insurance contracts, in a clear and concise manner (please see the [July 24, 2014 Investment Management Regulatory Update](#) for a discussion of the relevant guidance update);
- avoid naming funds and products in a way that may lead to investors misunderstanding the risks associated with the investment funds or products (please see the [December 20, 2013 Investment Management Regulatory Update](#) for a discussion of the relevant guidance update);
- in the case of funds that invest in derivatives, review the disclosure to ensure accuracy and completeness, and provide adequate disclosure of risks reflecting anticipated derivatives usage; and
- in the case of multi-manager funds, review the SEC's guidance updates on advisory fee rates and shareholder approval requirements (please see the [March 24, 2014 Investment Management Regulatory Update](#) for a discussion of the relevant guidance update).

Additionally, Champ urged funds to review the SEC's guidance updates on the deregistration of investment companies. According to Champ, these guidance updates would be particularly relevant for insurance company separate accounts because of the unique organizational structures of such separate accounts. Reviewing these guidelines may also ease the deregistration process for such separate accounts. Please see the [May 28, 2014 Investment Management Regulatory Update](#) for a detailed discussion of the relevant guidance update.

- ▶ [See a copy of Champ's speech](#)

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If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

<b>John G. Crowley</b>	<b>212 450 4550</b>	<a href="mailto:john.crowley@davispolk.com">john.crowley@davispolk.com</a>
<b>Nora M. Jordan</b>	<b>212 450 4684</b>	<a href="mailto:nora.jordan@davispolk.com">nora.jordan@davispolk.com</a>
<b>Yukako Kawata</b>	<b>212 450 4896</b>	<a href="mailto:yukako.kawata@davispolk.com">yukako.kawata@davispolk.com</a>
<b>Leor Landa</b>	<b>212 450 6160</b>	<a href="mailto:leor.landa@davispolk.com">leor.landa@davispolk.com</a>
<b>Gregory S. Rowland</b>	<b>212 450 4930</b>	<a href="mailto:gregory.rowland@davispolk.com">gregory.rowland@davispolk.com</a>
<b>Beth M. Bates</b>	<b>212 450 4062</b>	<a href="mailto:beth.bates@davispolk.com">beth.bates@davispolk.com</a>

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