

SEC enhances reporting for 1940 Act funds and provides guidance on liquidity risk management

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The SEC's form and rule amendments require 1940 Act funds to enhance their periodic portfolio reporting. The SEC also provided guidance regarding liquidity risk management programs, addressing certain questions that have arisen since the implementation of the liquidity risk management rule.

Introduction

On August 28, 2024, the Securities and Exchange Commission (SEC) [adopted](#) amendments (the Amendments) to reporting requirements on Forms N-PORT and N-CEN (the Adopting Release) intended to provide the SEC and investors with more timely information about registered open-end funds, registered closed-end funds and exchange-traded funds organized as unit investment trusts (Covered Funds). The Amendments, once effective, will require more frequent filings of Form N-PORT and increased disclosure about liquidity service providers on Form N-CEN. On the same date, the SEC provided guidance on open-end fund liquidity risk management programs, including information regarding certain questions that have arisen since the adoption of the initial rule. Such guidance relates to: (i) the frequency of classifying the liquidity of fund investments, (ii) the meaning of "cash" in the liquidity rule; and (iii) determining and reviewing the highly liquid investment minimums.

Background

The SEC first proposed to amend Form N-PORT to provide the SEC with timelier portfolio-related information and provide investors access to monthly, rather than just quarterly, information. The proposal included the requirement that all registered investment companies that report on Form N-PORT file monthly reports with the SEC within 30 days of month end, and such reports would subsequently be available to the public 60 days after month end.

On August 28, 2024, the SEC adopted, substantially as proposed in 2022, the amendments requiring all Covered Funds who report on Form N-PORT to file monthly reports with the SEC within 30 days of month end, which will then be publicly available 60 days after month end. The SEC also adopted amendments to Form N-CEN that modify certain items related to entity identifiers and require open-end funds that are subject to liquidity risk management program requirements to report certain information about service providers used to fulfil that rule's requirements. Lastly, the SEC adopted technical amendments to the definition of "exchange-traded fund" used in Form N-PORT and Form N-CEN and provided further guidance relating to open-end fund liquidity risk management program requirements.

According to the Adopting Release, the SEC recognizes that information filed in reports of Covered Funds allow the SEC to monitor industry trends, identify risks, inform policy and rulemaking, and assist SEC staff in examination and enforcement efforts by providing monthly information about a fund's complete portfolio holdings. The Adopting Release also discussed how investors benefit from information filed in reports with the SEC because it allows investors to make more informed investment decisions. The SEC noted that market events in recent years, such as the COVID-19

pandemic, Russia's invasion of Ukraine, the transition away from LIBOR and the banking crisis of March 2023 have only underscored the importance of more timely data regarding funds' portfolios.

The SEC further noted the importance of providing the public with timelier information about funds' portfolio investments to improve transparency and facilitate the overall monitoring of funds. The Adopting Release noted that the changes made will promote more effective regulatory monitoring and oversight of the fund industry to benefit fund investors while simultaneously addressing concerns surrounding data sensitivity and the requisite time that funds need in order to comply with such collection and review of accurate information. Overall, the SEC notes in the Adopting Release that more frequent and timely data will allow the SEC to conduct more targeted and timely monitoring efforts, analyze risk and trends more accurately, and better assess the breadth and magnitude of potential impacts of market events and stress affecting particular issuers, asset classes, counterparties, or market participants.

However, the SEC did not adopt certain proposed amendments that would require funds to present portfolio holdings in accordance with Regulation S-X more frequently than currently required, and also did not adopt proposed amendments that relate to funds' use of swing pricing or their liquidity classifications.

Amendments to Form N-PORT and Rule 30b1-9

Filing and publication frequency

The Amendments to Form N-PORT and Rule 30b1-9 will require all Covered Funds to file Form N-PORT reports on a monthly, rather than a quarterly, basis. Such funds will be required to make monthly filings within 30 days after the end of the month to which they relate, rather than the previous requirement of filing within 60 days after the end of the relevant fiscal quarter. The Amendments adopted will also make such Covered Funds' monthly reports on Form N-PORT public 60 days after the end of the month, meaning the disclosures made available to investors on Form N-PORT in a given year will increase three-fold as a result.

The SEC believes that having access to more frequent and timely information of the portfolio holdings of Covered Funds will allow it to carry out more efficient examination, enforcement and monitoring of funds, as well as a more robust formulation of policy and more accurate review of registration statements and disclosures. The SEC notes that the Amendments would also allow it to determine whether regulatory relief or other emergency actions, like emergency relief to allow funds to suspend redemptions, may be necessary in major market events.

Other amendments

The SEC has also adopted amendments that will require a Covered Fund to report certain return and flow information only for the month that the Form N-PORT report covers, rather than requiring that information for the preceding three months.

Amendments to Part D of Form N-PORT have also been adopted regarding miscellaneous securities to align with the Amendments requiring public availability of monthly Form N-PORT reports. The Amendments remove the language that had limited reporting of nonpublic information about individual miscellaneous securities holdings to reports filed for the last month of each fiscal quarter.

Additionally, the SEC adopted technical amendments to certain items and definitions related to entity identifiers in the form, such as the amendment to the definition of "legal entity identifier" to remove certain language, to improve consistency and comparability of information funds report about the instruments they hold.

Amendments to Form N-CEN

Covered Funds that are subject to Rule 22e-4 (the Liquidity Rule) will be required to identify and provide certain information about service providers that such funds use to fulfill the requirements of the rule. The adopted Amendments will require a Covered Fund to:

- Name each liquidity service provider;
- Provide identifying information, including the legal entity identifier (if available) and location, for each liquidity service provider;

- Identify if the liquidity service provider is affiliated with the fund or its investment adviser;
- Identify the asset classes for which the liquidity service provider provided classifications; and
- Identify whether the service provider was hired or terminated during the reporting period.

The SEC believes this information will allow it to keep track of the increased use of the liquidity classification services, such as what purpose such services are used for, what period such services are used, and which providers are used for such services. This information will, in turn, allow the SEC to understand potential trends or outliers in Covered Funds' liquidity classifications.

Guidance on open-end fund liquidity risk management program requirements

The SEC has not adopted amendments to the Liquidity Rule at this time, but instead opted to provide guidance to funds subject to the Liquidity Rule to address questions raised through outreach and monitoring. Such guidance relates to the frequency of classifying the liquidity of fund investments, the meaning of “cash” in the rule, and determining and reviewing highly liquid investment minimums.

Considerations in the determination of intra-month changes in investment-specific considerations

With respect to the frequency of liquidity classifications, the Liquidity Rule requires funds to review, as well as to adopt and implement policies and procedures that allow the fund to conduct, liquidity classifications more frequently than monthly if changes in relevant markets, trading, and investment-specific considerations are reasonably expected to materially affect one or more of the fund's investment classifications. The SEC indicated that such policies and procedures should identify, for example, the type of information a fund will use to identify relevant intra-month changes and to review liquidity classifications intra-month, along with the timeliness of that information. The SEC noted its view that a fund's lack of information or use of stale information could inhibit these intra-month reviews.

The SEC also stated that open-end funds should generally consider reviewing liquidity classifications if changes in portfolio composition are reasonably expected to materially affect one or more investment classifications. For example, the SEC noted that a fund that substantially increases the size of its position in an investment may reasonably anticipate trading a larger size of such investment, which could consequently affect the liquidity classification of such investment if a lack of market depth for a larger trade size makes it difficult to sell such investment within a specific time without such sale causing a significant change in the market value.

The SEC further stated that open-end funds should generally consider classifying newly acquired investments intra-month if acquiring a particular investment is reasonably expected to result in material changes to the liquidity profile of the fund, particularly “changes to the fund's liquidity profile that may cause a shortfall below a fund's highly liquid investment minimum or cause the fund to exceed the rule's limit on illiquid investments.”

Determining when an investment can be “converted to cash”

To determine whether an investment can be classified as highly liquid or moderately liquid, the liquidity rule requires a fund to consider the time in which it reasonably expects an investment to be “convertible to cash” (i.e. sold and settled). The SEC stated that when determining whether an investment can be “converted to cash”, open-end funds should consider reasonable expectations of the period of time it would take to convert a reasonably anticipated trade size of that currency into U.S. dollars under current market conditions without significantly changing the currency exchange rate. The SEC noted that factors to consider include: (i) the presence of currency controls; (ii) the presence of an active market in forward or spot contracts exchanging the currency for U.S. dollars; and (iii) any delays in currency conversions driven by market structure of operations.

Further, the SEC noted that open-end funds should consider the: (i) reasonable expectations of the period of time in which an international non-currency investment can be sold and settled in the local market without significantly changing the market value of the investment; and (ii) reasonable expectations of the period of time in which any international currency received upon settlement can be converted to U.S. dollars without significantly changing the currency exchange rate. For example, the SEC noted that if an open-end fund reasonably expects (i) that it could sell and settle a reasonably anticipated trade size of an international investment within three (3) business days without significantly changing the

market value of the investment under the first consideration, and (ii) that the international currency it would receive upon settlement could be converted into U.S. dollars within the same three (3) business days without significantly changing the currency exchange rate under the second consideration, it would be reasonable for the fund to classify the international investment as highly liquid. Additionally, the SEC noted that if a fund converts an illiquid international investment into an illiquid local currency, and takes reasonable steps to convert the illiquid currency into U.S. dollars or invests in investments convertible into U.S. dollars, in an effort to reduce such fund's illiquid investments, the SEC would likely not consider the acquired illiquid currency to be in violation of the Liquidity Rule's prohibition on acquiring illiquid investments in excess of the rule's 15% limit.

If an open-end fund does not reasonably expect to be able to convert the local currency into U.S. dollars within seven calendar days because of currency controls or otherwise, the local currency should be classified as an illiquid investment.

Determining a highly liquid investment minimum

The Liquidity Rule also requires open-end funds that do not primarily hold assets that are highly liquid investments to establish a highly liquid investment minimum or HLIM. The SEC noted that in determining its HLIM, an open-end fund should consider its particular risk factors, and consider establishing a higher HLIM than a comparable fund that is more liquid.

An open-end fund should also consider the volatility of its investment strategy, especially with respect to funds that have had greater volatility in reasonably foreseeable circumstances.

Lastly, an open-end fund should also consider the SEC's general belief that liquidity risk management is better conducted primarily through construction of an open-end fund's portfolio, rather than by use of a line of credit or similar arrangement.

Proposals not adopted

The SEC declined to adopt numerous proposals, such as the aggregate liquidity classification reporting proposal, which would have required three liquidity classifications (as opposed to the current four classifications), the swing pricing reporting proposal, which would have required open-end management investment companies (excluding money market funds and exchange-traded funds) to engage in swing pricing and the requirement for a "hard close" for transacting in fund shares.

Effective date

The SEC has deemed the effective date of the amendments to Forms N-PORT and N-CEN to be November 17, 2025, with smaller entities having an extended compliance period for Form N-PORT. Such smaller entities may utilize an additional six-month compliance period until May 18, 2026, and during such time, will continue to be subject to requirements under Rule 30b1-9 to maintain records of Form N-PORT information within 30 days after month end. Smaller entities are classified as funds that have, together with other investment companies in the same "group of related investment companies", net assets of less than \$1 billion as of the end of the most recent fiscal year.

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