

CLIENT MEMORANDUM

SEC Proposes Significant Changes to Reporting Requirements for Registered Investment Companies and Investment Advisers

May 21, 2015

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On May 20, 2015, the Securities and Exchange Commission (the “SEC”) unanimously approved a set of proposed rulemakings to, among other things, expand the information reported by registered investment companies and investment advisers. The reforms are intended to enhance the SEC’s ability to monitor portfolio composition and risk exposures among investment advisers, funds and separately managed accounts. The SEC expects that the information collected through the new reporting regime will also enable it to understand whether products or activities in the asset management industry present risks to the overall stability of the U.S. financial system. The proposals include five rulemakings under the Investment Company Act of 1940, as amended (the “Investment Company Act”),¹ and two rulemakings under the Investment Advisers Act of 1940, as amended (the “Advisers Act”).²

We will provide a more detailed client alert on the rulemakings separately, but their key elements are outlined below. The comment period for the proposed rules will be 60 days after publication in the Federal Register.

¹ See Investment Company Reporting Modernization, Inv. Co. Act. Rel. No. 31610 (May 20, 2015), available [here](#).

² See Amendments to Form ADV and Investment Advisers Act Rules, Inv. Adv. Act Rel. No. 4091 (May 20, 2015), available [here](#).

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Investment Company Act Rulemakings

Form N-PORT. Proposed Form N-PORT would require most registered funds, other than money-market funds, to report on a monthly basis all of the investments held by the funds as of the close of that month. The proposed Form would also elicit detailed information about individual investments, including: data related to the pricing of portfolio securities; information regarding repurchase agreements, securities lending activities, and counterparty exposures; and terms of derivatives contracts. Funds would also be required to disclose portfolio-level and position-level risk measures so that the SEC and investors can better understand exposures to potential changes in market conditions.

Although Form N-PORT will be filed monthly, only the report for the last month in a calendar quarter will be available to the public, and then only following a 60-day lag period. Form N-PORT will likely replace current Form N-Q, which requires funds to report certain portfolio holdings for their first and third fiscal quarters.

Revisions to Regulation S-X. As a complement to Form N-PORT, the SEC also proposed revisions to Regulation S-X that would require registered funds to include in their financial statements a standardized schedule containing detailed information about derivatives investments, which will be similar to the information about derivatives that would be required in Form N-PORT. Revised Regulation S-X would also require funds to disclose within the notes to their financial statements information about securities lending practices.

Form N-CEN. Proposed Form N-CEN would replace existing Form N-SAR and would require funds to report detailed census-type information on an annual basis. Form N-CEN would streamline and update information currently reported to the SEC under Form N-SAR, including by requiring detailed information about exchange-traded funds and securities lending practices. Form N-CEN would be filed within 60 days of the end of the fund's fiscal year, rather than semi-annually as is currently required by Form N-SAR for most funds.

Rule 30e-3. Proposed Rule 30e-3 would permit, but not require, funds to make shareholder reports and quarterly portfolio holdings available online, unless shareholders opt for paper copies. Under current rules, funds can only deliver electronic reports to investors who have affirmatively requested electronic delivery.

Advisers Act Rulemakings

Form ADV – Separately Managed Accounts. The SEC proposed revisions to Form ADV that would elicit detailed information concerning an investment adviser's separately managed account clients ("SMAs"). In particular, the revised Form would require aggregate information related to assets held and the use of borrowings and derivatives in SMAs.

Form ADV – Umbrella Registration. The SEC also proposed revisions to Form ADV that would provide for a streamlined "umbrella registration" process for multiple investment advisers within a corporate structure that together conduct a single advisory business. Under current SEC Staff guidance, for example, if a registrant organizes special-purpose vehicles to serve as general partners or managers of private funds, the registrant typically must indicate on Schedule D of Form ADV

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that those special purpose vehicles are “relying advisers” and then must disclose separate identifying information about each relying adviser. Many private fund advisers have found this process to be somewhat cumbersome under the current format of Form ADV. Proposed Form ADV Schedule R would make this process easier to navigate.

Form ADV – Miscellaneous. Finally, the proposed Form ADV revisions would require an adviser to disclose additional information about its advisory business, including branch office operations and the use of social media.

Recordkeeping Rule. Proposed amendments to the Advisers Act recordkeeping rule, Rule 204-2, would require advisers to maintain records underlying the calculation of performance information that is distributed to any person. Under current Rule 204-2(a)(16), advisers are only required to maintain performance information that is distributed to 10 or more persons. The amendments would also require advisers to maintain communications related to performance or rate of return of accounts as well as securities recommendations.

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