SEC Proposes Major Disclosure Changes for Funds and Advisers

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The SEC recently published two rule proposals to address concerns over the Commission's ability to gauge and monitor any risks that the asset management industry poses to the financial system and investors. This includes the impact of new fund products and investment management practices, such as exchange-traded funds and the use of derivatives, securities lending, and repurchase agreements. The SEC also hopes to enhance the quality of information available to investors. Among other things, the proposals would:

> require funds to report monthly information about their portfolio holdings to the SEC on new Form N-Port, which would replace Form N-Q; require funds annually to report certain other types of information to the SEC on new Form N-CEN, which would replace Form N-SAR; amend Regulation S-X to require standardized, enhanced disclosure about derivatives in fund financial statements; add a new rule to permit funds to fulfill their obligation to transmit periodic reports to their shareholders by making the reports accessible on a website; and require advisers to report additional information on Form ADV about their "separately managed account" business and to maintain records of performance calculations and performance-related communications.

Information provided on Forms N-Port and N-CEN would be in a structured data format to improve the ability of the SEC and the public to aggregate and analyze information across funds and to link the reported information with information from other sources. These SEC proposals are partly a response to continued pressure by other financial regulators to better address the possibility of risks to the financial system. (See "Global Regulators Evolve on Money Manager Systemic Risks" on page 13.) As such, **it is not too early for registrants to evaluate the proposed changes in light of their own operations**. There is, for example, already speculation that the proposals could cause some funds to halt their securities lending programs due to compliance costs.

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