U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

B-328607

December 5, 2016

The Honorable Richard Shelby
Chairman
The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Jeb Hensarling
Chairman
The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Investment Company Liquidity Risk Management Programs*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (the Commission) entitled "Investment Company Liquidity Risk Management Programs" (RIN: 3235-AL61). We received the rule on October 19, 2016. It was published in the *Federal Register* as a final rule on November 18, 2016. 81 Fed. Reg. 82,142. The rule has an effective date of January 17, 2017, except for the amendments to Form N-CEN, which are effective June 1, 2018.

According to the Commission, the final rule imposes new requirements, adopts a new form, and amends an existing rule and forms designed to promote effective liquidity risk management throughout the open-end investment company industry, thereby reducing the risk that funds will be unable to meet their redemption obligations and mitigating dilution of the interests of fund shareholders. The Commission also seeks with this rule to enhance disclosure regarding fund liquidity and redemption practices. The rule requires each registered open-end management investment company, including open-end exchange-traded funds but not including money market funds, to establish a liquidity risk management program. The rule also requires principal underwriters and depositors of unit investment trusts to engage in a limited liquidity review. Further, the rule amends Form N-1A regarding the disclosure of fund policies concerning the redemption of fund shares. In addition, the rule generally will require a fund to confidentially notify the Commission when the fund's level of illiquid investments that are assets exceeds 15 percent of its net assets or when its highly liquid investments that are assets fall below its minimum for more than a specified period of time. Lastly, the rule will require disclosure of certain information regarding the liquidity of a fund's holdings and the fund's liquidity risk management practices.

Enclosed is our assessment of the Commission's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review of the procedural steps taken indicates that the Commission complied with the applicable requirements.

If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shirley A. Jones, Assistant General Counsel, at (202) 512-8156.

signed

Robert J. Cramer
Managing Associate General Counsel

Enclosure

cc: Brent Fields
Secretary of the Securities and
Exchange Commission

ENCLOSURE

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"INVESTMENT COMPANY LIQUIDITY RISK MANAGEMENT PROGRAMS"
(RIN: 3235-AL61)

(i) Cost-benefit analysis

The Securities and Exchange Commission (the Commission) discussed the costs and benefits of two parts of this final rule separately. The first part is the adoption of rule 22e-4 which will require each fund to establish a written liquidity program. The Commission believes that the liquidity risk management program requirement should promote improved alignment of the liquidity of the fund's portfolio with the fund's expected (and reasonably foreseeable) levels of redemptions. The Commission also believes that the rule will decrease the probability that a fund will need to meet redemption requests through activities that can materially affect the fund's net asset value or risk profile or dilute the interests of fund shareholders. Finally, according to the Commission, to the extent that the requirement results in funds less frequently needing to sell portfolio investments in unfavorable market conditions in order to meet redemptions, the requirement also could lower potential spillover risks that funds could pose to the financial markets generally. The Commission estimates that one-time costs for funds under the rule range from approximately $0.8 million to $10.2 million, that the average cost per fund complex is $1 million, and the aggregate cost is approximately $855 million. The Commission estimates a range of ongoing costs across all funds of $40,000 to $3.3 million per fund complex.

The Commission expects the disclosure and reporting requirements regarding liquidity risk and liquidity risk management will have the benefits of promoting investor protection by improving the availability of information regarding funds' liquidity risks and risk management practices, as well as funds' redemption practices. The Commission estimates that the one-time costs to comply with these requirements will be approximately $324 per fund (plus printing costs) and an ongoing cost of approximately $81 each year to review and update the disclosure regarding redemptions.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603-605, 607, and 609

The Commission prepared a Final Regulatory Flexibility Analysis for this final rule. The analysis included a statement of the need for the rule; a discussion of significant issues raised by public comment; an estimate of the number of small entities subject to the rule; a projection of reporting, recordkeeping, and other compliance requirements; and a description of agency action to minimize effects on small entities.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the Commission is not subject to the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

On October 15, 2015, the Commission published a proposed rule. 80 Fed. Reg. 62,274. The Commission responded to comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501-3520

The Commission determined that this final rule contains new information collection requirements under the Act. The Commission also determined the final rule will impact the burden estimates for existing information collection requirements. The title for the existing collections of information are "Form N-1A under the Securities Act of 1933 and under the Investment Company Act of 1940, Registration Statement of Open-End Management Investment Companies" (OMB Control No. 3235-0307). The titles for these new collections of information are "Form N-CEN Under the Investment Company Act, Annual Report for Registered Investment Companies" and "Form N-PORT Under the Investment Company Act, Monthly Portfolio Investments Report." The Commission estimates that funds will incur an average annual increased burden of approximately 6,483.17 hours, at a time cost of approximately $3,300,858, to comply with the Form N-1A disclosure requirements. The Commission estimates that the average annual hour burden per additional response to Form N-CEN as a result of the this rule will be one hour per fund per year, for a total average annual hour burden of 10,633. The Commission estimates that the total external annual cost burden of compliance with the information collection requirements of Form N-PORT will be $103,787,680, or $9,118 per fund.

Statutory authorization for the rule

The Commission promulgated this final rule under the authority the Investment Company Act, particularly, sections 8, 22(c), 22(e), 34(b), and 38 thereof; the Investment Advisers Act, particularly, section 206(4) thereof; the Exchange Act, particularly sections 10, 15, 23, and 35A thereof; the Securities Act, particularly sections 17(a) and 19 thereof; the Trust Indenture Act, particularly, section 19 thereof; and the Exchange Act, particularly sections 10, 15, and 23, and 35A thereof. 15 U.S.C. §§ 77a et. seq., 77aaa et. seq., 78a et. seq., 80a et. seq., 80b-6(4).

Executive Order No. 12,866 (Regulatory Planning and Review)

As an independent regulatory agency, the Commission is not subject to the Order.

Executive Order No. 13,132 (Federalism)

As an independent regulatory agency, the Commission is not subject to the Order.