SEC AMENDMENTS TO RULE 22E-4

On February 21, 2018, the Securities and Exchange Commission (SEC) adopted an interim rule that revises the compliance date for certain provisions of Rule 22e-4, which requires registered open-end funds and open-end exchange-traded funds to establish liquidity risk management programs. The delayed compliance requirements give funds until June 1, 2019 for larger entities and December 1, 2019 for smaller entities to classify their portfolio investments into liquidity category buckets ranging from highly liquid to illiquid.

On March 14, 2018, the SEC proposed amendments that will (1) eliminate the requirement on Form N-PORT for public disclosure of the aggregate liquidity classification information, (2) allow for the classification of a single security into more than one bucket, and (3) require reporting of cash and cash equivalents on Form N-PORT.

Rule 22e-4 delayed requirements include:

- Classification of investments into one of four categories: highly liquid, moderately liquid, less liquid and illiquid
- Board approval of the liquidity risk management program
- Reporting to the board annually on the liquidity risk management program
- Minimums for highly liquid investments
- Related reporting requirements of Form N-Liquid and Form N-Port

Original compliance dates for certain provisions remain as December 1, 2018 for firms with $1 billion or more in AUM, and June 1, 2019 for firms with under $1 billion in AUM.

The following requirements were not delayed:

- Adopt written liquidity risk management programs
- Limit illiquid investments to 15% of their portfolio holdings
- Appoint a designated program administrator

New Compliance Dates

Investment companies with $1 billion or more in assets under management (AUM) must comply with delayed requirements by June 1, 2019, while investment companies with under $1 billion AUM must comply by December 1, 2019.

- Implement written policies and procedures for in-kind redemptions for funds who engage in this practice

The proposed liquidity reporting and disclosure changes include:

- Under certain circumstances (including multi-managed funds), allowing funds to classify a single security into more than one liquidity bucket for reporting for reporting on Form N-PORT
- Requiring funds to report cash or cash equivalents on Form N-PORT
- Rescinding the Form N-PORT requirement for funds to publicly report the aggregate percentage of its investments allocated to each liquidity portfolio classification on a quarterly basis
- New narrative disclosures included in Form N-1A requiring funds to "briefly discuss the operation and effectiveness of the Fund's implementation of its liquidity risk management program" during the most recently completed fiscal year

Contact Us

Please contact your Northern Trust representative if you have questions, or visit northerntrust.com.

northerntrust.com

March 2018