

SEC Modernization in Plain English

Regulatory Roundtable Discussion

Practical points on managing SEC Modernization

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Presentation Overview

- ▶ Introduction
- ▶ Overview of the Rule
- ▶ Compliance Dates
- ▶ New Form N-PORT
- ▶ New Form N-CEN
- ▶ Regulation S-X Amendments
- ▶ Questions and Answers
- ▶ Authors

Overview of the Rule

- ▶ On October 13, 2016 the SEC issued its final Investment Company Modernization rules and forms
 - ❖ *Introducing* new forms, new rules, new compliance dates
 - ❖ *Causing* burdensome data collection, demanding filing timelines
 - ❖ *Requiring* new taxonomies that include different derived data from multiple data sources
- ▶ **Why?** The Fund industry has changed
 - ❖ New product structures
 - ❖ New fund types
 - ❖ Increased use of derivatives, alternative structures
- ▶ **Goal:** Increased transparency
 - ❖ Investor risk
 - ❖ SEC's use of analytics

Overview of the Rule, Continued

New Form	Brief note	Language	Required
Form N-PORT	Replaces N-Q	XML	Monthly
N-CEN	Replaces N-SAR	XML	Annually
N-1, N-3 (and N-CSR for closed-end funds)	Various amendments re securities lending		Standardizes certain disclosure required in the SAI
Regulation S-X	Standardizes derivative disclosure		Moves disclosure from the notes to the Sch. of Investments

Compliance Dates

New Form	All Funds	Large Funds	Small Funds
N-PORT	N-Q to be rescinded 8/1/2019	June 1, 2018*	June 1, 2019**
<p>*Filed by 7/30/2018, reflecting data as of June 30th. Liquidity-related data must be filed by 1/31/19, reflecting data as of 12/31/18</p> <p>**All data, including liquidity related data</p>			
N-CEN	June 1, 2018 N-SAR to be rescinded 6/1/2018	12/1/2018*	June 1, 2019*
<p>*Extended due dates for reporting of lending/borrowing information</p>			
Regulation S-X	8/1/2017*		
<p>*For amendments to Reg. S-X and to forms relating to sec lending disclosure</p>			

New Form N-PORT

- ▶ N-PORT requires detailed information about all portfolio investments including derivatives.
- ▶ Principal reporting components (Parts A thru F) are generally similar to the current N-Q
- ▶ Certain additional holdings information is not currently mandated on N-Q/N-CSR, mostly affecting debt-concentrated funds
- ▶ Open-end funds (but not MMFs) must adopt liquidity management programs. Disclosure related to liquidity is increased
- ▶ Derivatives disclosure is significantly increased
- ▶ Registrants offering multiple series must file separate reports on each series, even if some information is identical
- ▶ Part F is intended to replicate the N-Q and is not filed in XML format
- ▶ Filed via the SEC's EDGAR database; due 30 days after month end
- ▶ Monthly reports are filed with the SEC; fiscal quarter reports are made public on a 60-day delayed basis

New Form N-CEN

- ▶ N-CEN requires updated census information on registered investment companies
- ▶ Generally similar to the current N-SAR
- ▶ Certain additional questions apply to closed-end funds, SBICs, ETFs and ETMFs, and UITs
- ▶ Financial support from certain affiliated entities is a new exhibit
- ▶ Questions about reliance on Certain Rules has been expanded
- ▶ Filed via the SEC's EDGAR database in XML format (except for attachments, which are not required to be in XML)
- ▶ Registrants offering multiple series with varying fiscal year ends must file separate reports including all series with the same fiscal year end
- ▶ Filed annually, within 75 days of the applicable year end, depending on type of filer
- ▶ The Adopting Release presents items added and deleted from N-SAR in a useful chart form

N-PORT/N-CEN Solution

- Donnelley Financial Solutions' end-to-end, web-based platform:
 - Collect, create, review and file Forms N-PORT & N-CEN
- Due to the volume of data and the frequency of the filings, our solution is based on a dashboard highlighting data exceptions and validations:
 - Real-time status of the N-PORT and N-CEN process
 - Guide the user through the process
- Built on FundSuiteArc platform:
 - Leveraging existing N-MFP and ArcReporting features to deliver our modernization solution
- Holistic solution:
 - Partnership with ICE Data Services and Eagle Investment Systems

Regulation S-X Amendments

- ▶ Similar, but not identical, to new disclosure requirements of Form N-PORT
- ▶ Enhanced and standardized derivatives disclosure
- ❖ Open futures contracts, open forward foreign currency contracts, open swap contracts, written and purchased options
- ❖ Disclosure re swap contracts with a reference asset is less extensive than in N-PORT
- ▶ Prominent disclosure of details on derivatives investments in the financial statements (in the schedule of investments)
- ▶ Additional disclosure re transactions with affiliates
- ▶ Additional disclosure re other investments i.e. real estate, commodities
- ▶ Certain changes in form, content of financial statements

SEC Modernization Solution Data Flow



- **Static Data:** Includes information that typically doesn't change period to period including information about the fund and registrant.
- **Financial Information:** Trial balance and holdings details sourced from the fund accounting system.
- **Non-financial Information:** Fund performance data, reference data, risk metrics, repo collateral, securities lending, fair value, liquidity and other data

Four Broad Categories of Data

Reference Data

- Identifier Information
- Currency
- Maturity Date
- Coupon Information
- Terms & Conditions
- Country of Domicile/Risk
- Restricted Security Flag
- Debt Default Flag
- Security Modifications
- Interest in Arrears/PIK
- LEI of the Issuer
- Convertible Bond Data

Risk Metrics

- DV01
- DV100
- CS01
- Delta

Taxonomy Data

- Asset Type Classification
- Issuer Classification
- Collateral Type Classification
- Derivatives Type Classification
- Maturity Bucket
- IG Flag

Subscription Data

- Liquidity Classifications
- Fair Value Hierarchy Levels
- Valuations
- Underlying Derivatives Data

- All reference data, risk metrics and taxonomy data is a part of the basic ICE N-PORT service offering
- Subscription data as required by Form N-PORT must be subscribed to with ICE as an additional service

ArcFiling

ArcFiling N-PORT JUN 2018 ALL FUNDS (200) FILING DATA ANALYTICS

4 days left

40%

Data collected and cleaned

Review 20 funds with missing data

- 1 file update was rejected Review critical error
- Donnelley Bond Fund has 45 exceptions Review exceptions

15 days left

25%

Exceptions resolved

Review 258 exceptions

Donnelley Bond Fund has 200 exceptions

21 days left

17%

Approved

Approve & Submit 40 funds

4 funds have been flagged

24 days left

10%

Filed

Review 258 exceptions

FundSuiteArc: A Single Enterprise Platform



FundSuiteArc®

ArcFiling

- Form N-MFP
- Form N-PORT
- Form N-CEN
- Form N-LIQUID
- US SEC Self Filings
- EU Filings:
 - MMIF
 - BCL

ArcReporting

- Annual Report
- Semi-Annual Report
- Quarterly Report
- US, EU, APAC and Canada Shareholder Report
- Private Equity Reporting
- Alternative Investment Reporting

ArcPro

- Prospectus
- Summary Prospectus,
- Canada Fund Facts
- SAI
- Risk/Return XBRL
- Aus Collective Disclosure Statement and PDS

ArcMarketing

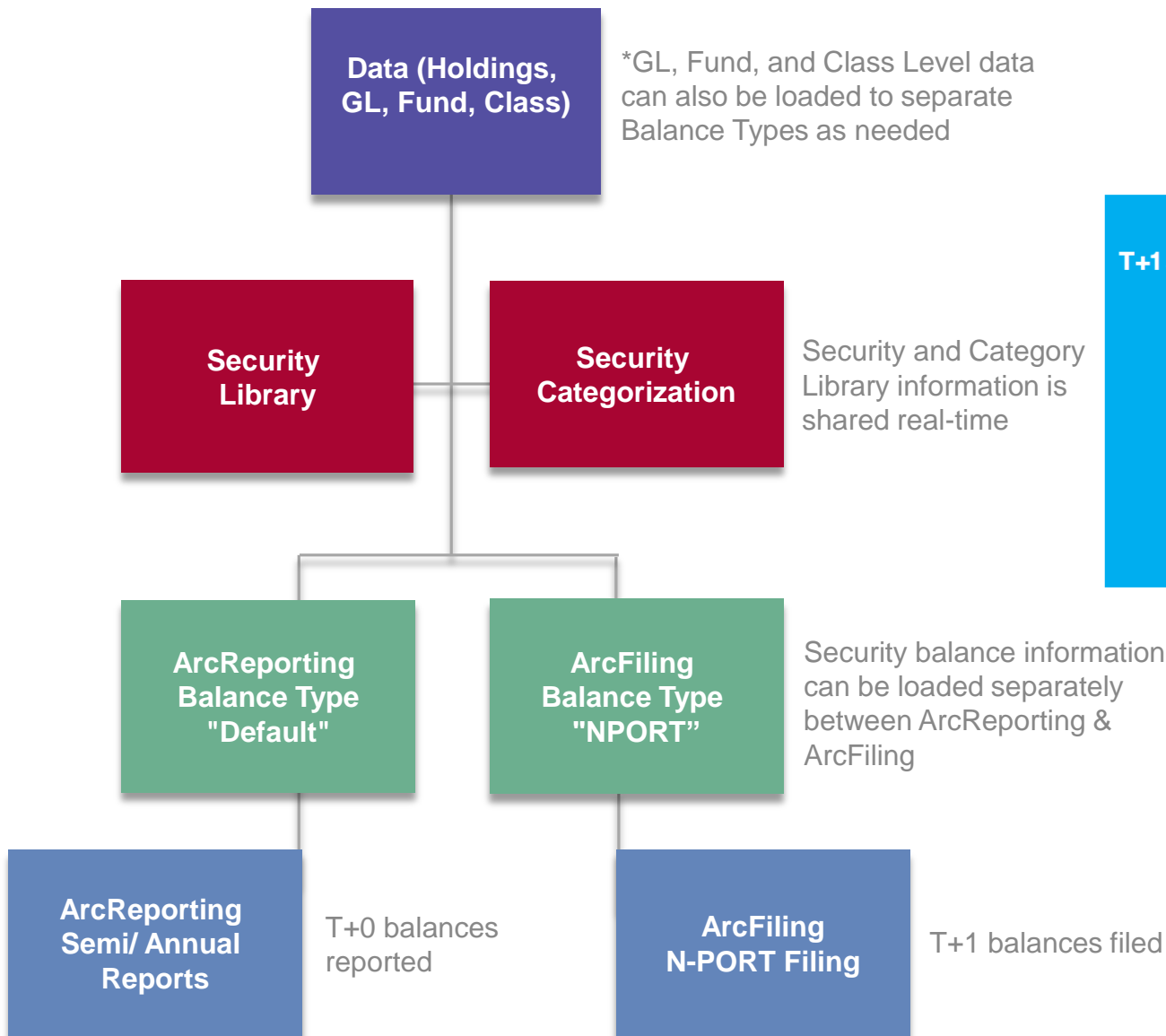
- Fact Sheet
- KIID
- PRIIPs
- Pitch Book
- Product Sales Presentation
- Structured Marketing Documents

ArcExchange

- CS interaction and communication
- Process production requests
- File transfer
- Proof approvals
- Alerts
- Status tracking
- Mobile access

Global Service
Teams

The T+0 Versus T+1 Dilemma



T+1 and T+0

- Parts A through E of Form N-PORT should be prepared on the same basis as the fund calculates the month end NAV per share. This generally would be T+1 as permitted by rule 2a-4 of the Investment Company Act of 1940.
- Part F of Form N-PORT is to be filed 60 days after the end of the fund's 1st and 3rd fiscal quarters and must comply with GAAP. Therefore, Part F should be on a T+0 basis.

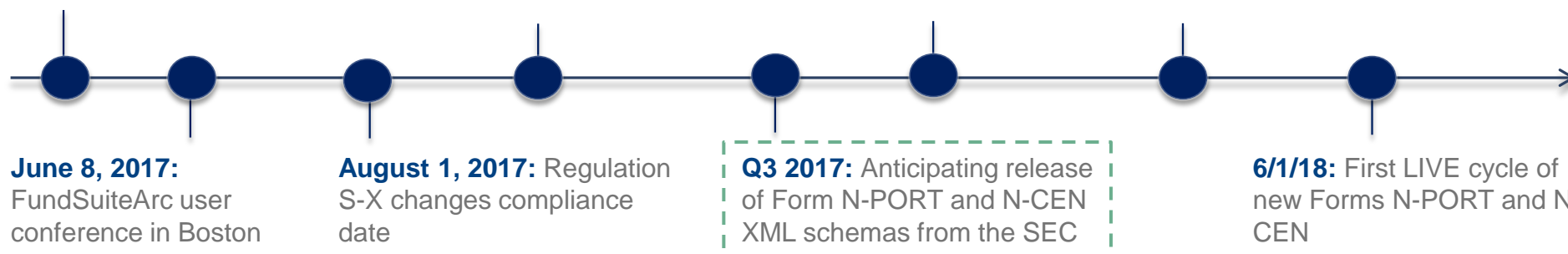
Key Milestones and Checkpoints

March 2017: Form N-PORT and N-CEN modules framework and data release scheduled

September 2017: Second release of Form N-PORT and N-CEN modules scheduled

Q1 2018: Client testing and filing with the SEC projected to begin

Q2 2018: Final release prior to go live for N-PORT and N-CEN



Market Checkpoints

- **Objective:** Keep market apprised of progress for timely planning and deployment
- Development process will be open and transparent
- We will work with the client council and other partners to determine product scope
- Regular updates to be held to show progress
- Customers can begin testing in Q3 2017

Key Milestone Dates

- **March 2017:** Updates to data model for N-PORT and Regulation S-X changes
- **September 2017:** Second release with additional features added including user interface, dashboards, dataload updates, etc.
- **Q1 2018:** Third release including XML creation (assuming the SEC has released it)
- **Q2 2018:** Final release prior to first go-live

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- ▶ Jay F. Nusblatt is Managing Director, Sales & Business Development for DFS. Jay is responsible for focusing DFS content management solutions to the mutual fund marketplace and for the development and growth of that segment. His knowledge of the fund administration business inform his ability to position the benefits offered by ArcReporting and the FundSuiteArc platform.
- ▶ Previously, Mr. Nusblatt served as Managing Director and Head of U.S. Fund Accounting and Administration for BNY Mellon's asset servicing group and oversaw fund accounting, financial reporting, tax and regulatory services for mutual funds and other investment company clients.



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- ▶ Mr. Falco represents clients in a number of regulatory matters and has served as counsel to an SEC receivership.



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- ▶ John Ford focuses his practice on investment company and investment adviser regulatory issues, and related issues affecting the investment management activities of financial institutions. Mr. Ford assists clients with the formation and registration of investment companies and investment advisers, and provides advice about regulatory compliance and securities law issues.



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- ▶ Greg Nowak concentrates his practice in securities law, particularly in representing investment management companies and other clients on matters arising under the Investment Company Act of 1940 and the related Investment Advisers Act of 1940
- ▶ He represents many hedge funds and other alternative investment funds in fund formation and investment and compliance matters, including compliance audits and preparation work
- ▶ Mr. Nowak writes and speaks frequently on issues involving investment management, health care and other matters. He is the author of four books on hedge funds



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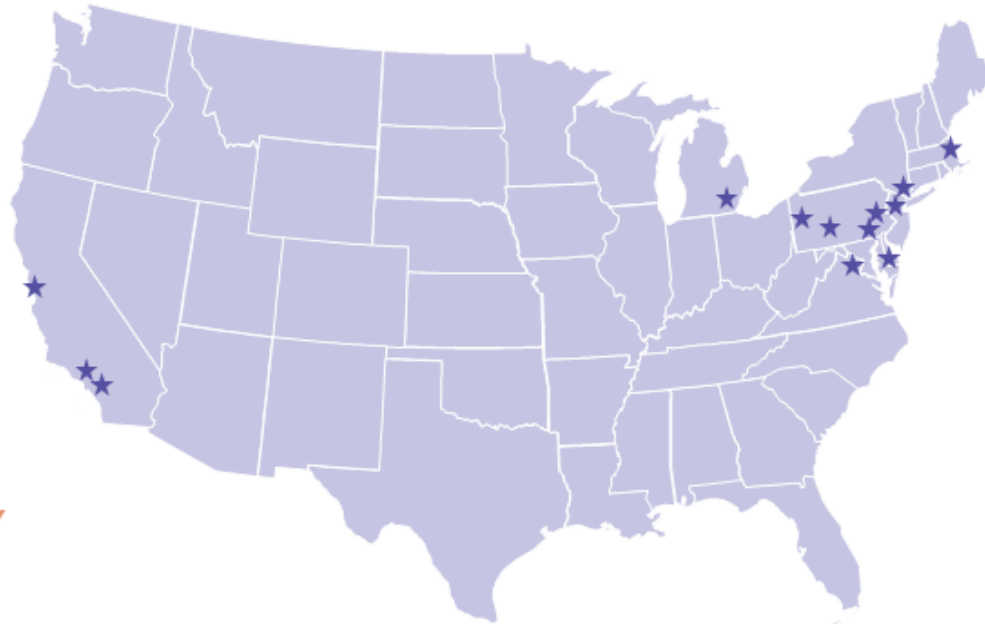
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LOS ANGELES
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serving clients