

Challenges for Fund Boards in Light of COVID-19

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Speaker Panel



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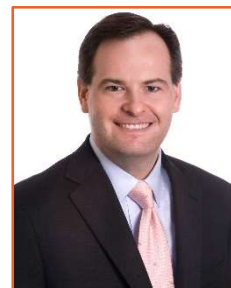
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Agenda

- Liquidity Oversight Considerations
- NYSE Trading Disruptions: Issues for Funds
- SEC Relief to Assist Funds and Advisers in Light of COVID-19
- Money Market Fund Considerations

Liquidity Oversight Considerations

Liquidity Oversight Considerations for Fund Directors during the COVID 19 Crisis

- Background regarding the right of redemption in registered open-end funds (Section 22(e))
- COVID 19 is the first test for the recent SEC's liquidity risk management program rule (Rule 22e-4)
 - Reminders about Rule 22e-4
 - Circumstances when Board reporting is required
 - Best practices regarding Board reporting, particularly in times of stress
 - It is important to remember that Rule 22e-4 is primarily a tool to reasonably assure that funds remain able to honor redemption requests in a timely fashion
- Observations about the markets
 - Market dislocations
 - Government liquidity facilities
 - Reliance on third party data and its limitations

Liquidity Oversight Considerations for Fund Directors during the COVID 19 Crisis

- Funds and strategies are affected by the current environment differently
 - Understand the funds you oversee and inquire about their distinct risks
- Overseeing liquidity: possible questions to the liquidity risk program administrator and management
- How to handle a crisis
 - HLIM and 15% illiquid investment limit breach reports and Form N-LIQUID
 - Considerations regarding other liquidity management tools
 - Taking 7 days to pay redemption proceeds
 - Redemptions in kind
 - Interfund lending
 - Lines of credit/overdrafts
 - Loans/asset purchases by adviser/affiliate
 - Suspending redemptions
 - When a fund cannot meet redemptions

NYSE Trading Disruptions: Issues for Funds

NYSE Trading Disruptions: Issues for Funds

- Recent Market Events
- Possible impact on valuation of portfolio holdings, pricing of fund shares and processing of fund share transaction
- Questions for Directors
 - How will a fund's valuation procedures handle an unexpected NYSE close at some time other than the regular 4:00 p.m. ET close?
 - How are NAV calculation procedures described in prospectus?
 - What is the process for communicating or escalating valuation matters to the Directors?
 - What challenges for fund share transaction processing might be created by an early close? What procedures are in place to mitigate disruption in share transaction processing?

SEC Relief to Assist Funds and Advisers in Light of COVID-19

Short-Term Funding Relief Overview

- Effective March 23, 2020 and runs through no earlier than June 30, 2020
- Designed to provide additional flexibility in obtaining short-term funding
- Permits funds (other than money market funds) and insurance company separate accounts to borrow from certain affiliates
- Allows funds to use interfund lending arrangements, and expands relief to funds that already have existing interfund lending exemptive relief
- Authorizes funds (other than money market funds) to participate in certain lending arrangements or borrowings that deviate from their fundamental policies

Affiliated Borrowing Relief

- Provides exemptions from Sections 12(d)(3), 17(a), and 18(f)(1) to the extent necessary to permit, for the purposes of meeting redemptions:
 - a fund or separate account to borrow money from first- or second-tier affiliates that are not registered investment companies
 - a first- or second-tier affiliate of a fund or separate account to make collateralized loans to such fund or separate account
 - a fund to borrow money from first- or second-tier affiliates that are not banks or registered investment companies

- Conditions:
 - The Board, including a majority of the Independent Directors, or the insurance company on behalf of a separate account, must reasonably determine that the borrowing is:
 - in the best interests of the fund and its shareholders or unit holders
 - will be for the purpose of satisfying shareholder redemptions
 - The fund or separate account must notify the SEC staff by email before it relies on this relief

Interfund Lending Relief

- Allows funds to use interfund lending arrangements, and expands relief to funds that already have existing interfund lending exemptive relief
 - If a fund does not have interfund lending relief, it may do so in accordance with any SEC interfund lending order within the last 12 months
 - If a fund has relief already, it may lend through the facility up to 25% of its current net assets, and may borrow (if permitted in existing order to be a borrower) or make loans through the facility for any term, essentially as long as the relief is in effect, subject to certain additional conditions
 - Certain conditions apply in either case, including requirements to notify SEC staff via email before relying on this relief and make certain website disclosures concerning reliance on this relief

Relief for Deviation from Certain Fundamental Policies Related to Lending or Borrowing

- Authorizes funds (other than money market funds) to participate in certain lending arrangements or borrowings that deviate from their fundamental policies
- Conditions:
 - The Board, including a majority of the Independent Directors, reasonably determines that such lending or borrowing is in the best interests of the fund and shareholders
 - The fund promptly notifies shareholders by prospectus supplement and website disclosure
 - The fund notifies the SEC staff via email before relying on this relief

Investment Company Relief

- **Exemption from in-person Board vote requirements** of Sections 15(c) and 32(a) and Rules 12b-1(b)(2) and 15a-4(b)(2)(ii) (effective March 13 to August 15, 2020)
 - The votes required at in-person meetings must instead be cast at a meeting in which directors may participate in a way that allows all directors participating to hear each other simultaneously
 - The Board, including a majority of the Independent Directors, must ratify the action at the next in-person meeting
- **Exemptions from Form N-CEN and Form N-PORT filing requirements** of Rules 30a-1 and 30b1-9 and **annual and semiannual shareholder report transmittal requirements** of Section 30(e) and Rules 30e-1 and 30e-2 (both effective March 13 to June 30, 2020)
 - The fund must notify SEC staff via email before relying on, and must disclose on its website that it is relying on, this relief
 - The fund must file the applicable form or transmit the reports to shareholders as soon as practicable, but no later than 45 days after the original due date (and file the shareholder report within 10 days of transmission to shareholders)
 - Any Form N-CEN/N-PORT must include a statement that the fund relied on the relief and the reasons why it could not file on a timely basis
- **For Closed-End Funds and BDCs, exemption from the notice of intention to call or redeem securities (30-day advance filing) requirement** of Sections 23(c) and 63 and Rule 23c-2(b) (effective March 13 to August 15, 2020) under certain conditions
- **The SEC also issued a statement indicating that it would not take enforcement action if a fund was not able to deliver a prospectus to current investors. This does not apply to initial purchases.**
 - The fund must notify SEC staff via email before relying on, and must disclose on its website that it is relying on, this position and post its current prospectus on its web site
 - The fund must deliver the prospectus as soon as possible, but not later than 45 days after the date originally required

Investment Advisers Relief

- Effective March 13 to June 30, 2020
- Provides exemptions to registered investment advisers from the following requirements:
 - Form ADV amendment filing deadlines
 - Certain Form ADV delivery requirements (brochures, summary of material changes, brochure supplement, as applicable)
 - Form PF filing deadlines
- Also exempts exempt reporting advisers from Form ADV filing deadlines
- Conditions
 - The adviser must be unable to meet a filing deadline due to circumstances related to current or potential effects of COVID-19
 - The adviser must promptly notify the SEC via email and, for the Form ADV filing and delivery exemptions, disclose on its public website that it is relying on the relief
 - The adviser must file Form ADV or Form PF and deliver its brochure, summary of material changes, or brochure supplement as soon as practicable, but not later than 45 days after the original due date

Money Market Fund Considerations

Money Market Funds

- Observations about the markets
 - Disruption in short-term money markets
 - Increased redemptions from prime money market funds
 - Increased inflows into government money market funds
 - Impact of Fed's Money Market Mutual Fund Liquidity Facility
- Liquidity Fees and Redemption Gates
- Types of Sponsor Support
- Form N-CR

Liquidity Fees and Redemption Gates

Optional Fees and Gates

- If Weekly Liquid Assets (WLA) fall below 30%, a MMF *may* impose a liquidity fee of up to 2% if the board (including a majority of the independent trustees) determines that imposing the fee would be in the MMF's best interests
- This applies to both Institutional and Retail MMFs, but does not apply to Government MMFs (unless these Government MMFs previously elected to “opt in”)
 - Only aware of one Government MMF that has “opted in”
 - The board may determine to “opt in” at a later date, subject to adequate shareholder notice (e.g., 60 days' notice)
- A MMF *may* also impose redemption gates for up to 10 business days in any 90-day period under the same circumstances

Liquidity Fees and Redemption Gates (cont.)

Mandatory Fees

- If WLA fall below 10%, a MMF *must* impose a liquidity fee of 1%, *unless* the board (including a majority of the independent trustees) determines that imposing the fee would *not* be in the MMF's best interests
 - A MMF may impose a higher or lower fee (up to 2%)
- Board may not determine in advance that fees or gates will never be in MMF's best interests

Lifting of Fees and Gates

- Fees and gates must be lifted automatically after WLA rise to or exceed 30%
- The board (including a majority of independent trustees) may lift or modify fees or gates at any time if it finds that doing so is in the best interests of the MMF
- A MMF may irrevocably suspend redemptions and liquidate if WLA drop below 10%

Liquidity Fees and Redemption Gates (cont.)

Board Considerations

- Relevant indicators of liquidity stress
 - Have WLA fallen because the MMF is experiencing mounting redemptions during a time of market stress or because a few large shareholders unexpectedly redeemed shares for idiosyncratic reasons unrelated to current market conditions or the MMF?
- The current and anticipated liquidity profile of the MMF
 - Will the decline in WLA be cured in the near term?
- For Retail and Government MMFs, whether the fall in WLA has been accompanied by a decline in the MMF's shadow price
- The shareholder profile of the MMF and previous shareholder redemption patterns
- The MMF's experience, if any, with the imposition of fees and/or gates in the past

Types of Sponsor Support

- Purchase securities from the MMF in reliance on Rule 17a-9
 - Must comply with the requirements of Rule 17a-9, including purchasing security at greater of amortized cost or market price and certain securities subject to “claw back” of any subsequent profit realization
- Non-routine purchases of shares of the MMF
- Contribute capital to the MMF
- Enter into a capital support agreement with the MMF to address potential losses for certain securities and avoid NAV deviation
 - This approach requires no-action relief; sponsors have obtained such relief in the past
- Enter into a line of credit or credit facility arrangement with an affiliated bank or with an unaffiliated bank (with payment obligation from sponsor/affiliate) to address potential losses for certain securities and avoid NAV deviation
 - This approach also requires no-action relief; sponsors have obtained such relief in the past
- These forms of sponsor support require the filing of Form N-CR
- Other tools potentially available to increase or stabilize value or liquidity include fee waivers, redemptions in kind, borrowings, delaying redemptions for up to seven days, etc.

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