

# NEW LIQUIDITY RISK MANAGEMENT PROGRAM REQUIREMENTS FOR OPEN-END MUTUAL FUNDS

The Securities and Exchange Commission (SEC) has adopted Rule 22e-4 and published new disclosure and data reporting requirements that will impact mutual fund liquidity risk management and reporting.

## WHAT IS REQUIRED UNDER NEW RULE 22E-4?

Rule 22e-4 requires open-end mutual funds (including exchange-traded funds but not money market funds), to establish liquidity risk management programs to assess and manage its liquidity risk, that will include written policies and procedures reasonably designed to incorporate the following:

- assessment and periodic review of a fund's liquidity risk;
- classification of fund investments into four liquidity categories;
- determining and managing a fund's highly liquid investment minimum;
- limits on illiquid investments to no more than 15% of a fund's assets;
- adopting policies and procedures for in-kind redemptions (if applicable); and
- board oversight of the liquidity risk management program.

## NEW REPORTING REQUIREMENTS

In addition, open-end mutual funds will be required to report certain information about a fund's liquidity risk and how liquidity risk is managed through Form N-1A, Form N-PORT, Form N-CEN and Form N-LIQUID.

Form N-PORT is a new monthly reporting form of an open-end mutual fund's investments (except money market funds) which requires:

- liquidity classification assigned to each fund's portfolio position (which may be based on asset type);
- asset type label that a fund has assigned to each portfolio position, using any asset type labeling scheme the fund employs in its own portfolio management systems;



*Today's rule is an important step toward improving fund resiliency and ensuring that funds manage their holdings consistent with their obligation to honor redemption requests.*

### COMMISSIONER KARA STEIN

U.S. Securities and Exchange Commission  
(SEC)

- a fund's highly liquid investment minimum; and
- a fund's aggregated percentage of its portfolio representing each of the four classification categories adopted by the SEC as of the end of each of its fiscal quarters.

Form N-LIQUID is a new reporting form that will be required to be filed with the SEC by open-end mutual funds (except money market funds) within one business day upon the occurrence of the following events:

- a fund's level of illiquid assets exceeds 15% of its net assets;
- a fund who has filed a Form N-LIQUID who no longer exceeds the 15% limit on illiquid assets; or
- a fund's holdings in assets that are highly liquid investments fall below its highly liquid investment minimum for more than 7 consecutive calendar days.

Form N-CEN is a new annual reporting form that will be required to be filed with the SEC by open-end mutual funds to provide information on a fund's use of lines of credit, interfund lending and interfund borrowing.

Form N-1A was amended to require open-end mutual funds to publicly disclose the fund's redemption procedures for redeeming its shares. This should include the number of days following receipt of shareholder redemption requests in which the fund typically expects to pay redemption proceeds to redeeming shareholders and the methods the fund typically uses to meet redemption requests, and whether those methods are used regularly or only in stressed market conditions.

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