

## Mutual Fund Liquidity Rule Quick Reference

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|-------------------|---|
| Official Name:    | Investment Company Liquidity Risk Management Programs                                   |
| Agency:           | U.S. Securities and Exchange Commission (“SEC”)   |
| Adopting Release: | 33- 10233; IC- 32315 (October 13, 2016)   |
| Rules and Forms:  | Rule 22e-4 (17 CFR 270.22e-4) of Investment Company Act<br>Forms N-1A, N-PORT, N-LIQUID |

This is a high-level summary of the SEC’s first-ever formal rule governing the liquidity of registered open-end investment companies - - mutual funds - - under the Investment Company Act of 1940.

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### I. KEY DEFINITIONS

Liquidity Risk: “[T]he risk that [a] fund could not meet requests to redeem shares . . . without significant dilution of remaining shareholders’ interests . . .”

Liquidity Categories: In current market conditions, it is reasonably expected that, without significantly changing its market value:

A “highly liquid investment” can be converted to cash in 3 business days or less;

A “moderately liquid investment” can be converted to cash in 3 to 7 calendar days; and

A “less liquid investments” can be sold (not necessarily settled) in 7 calendar days.

“Illiquid investments” are those which remain; it is not reasonably expected that they can be sold within 7 calendar days without significantly affecting their market values.

*Rule 22e-4(a)(6), (8), (10), (11) (12).*

### II. KEY STANDARDS

15% Illiquid Investment Limit: A fund may not acquire any illiquid security if doing so would cause it to hold more than 15% in illiquid securities.

Highly Liquid Investment Minimum: Except for “in-kind ETFs” and mutual funds that “primarily” hold highly liquid investments and each fund must set a “highly liquid investment minimum” (HLIM) based on its individual facts and circumstances, and establish procedures for responding to an HLIM shortfall.

### III. PROGRAM REQUIREMENTS

Adoption. Each Fund must adopt a Liquidity Program, including an HLIM if applicable, that is “reasonably designed to assess and manage its liquidity risk,” after considering a nonexhaustive set of liquidity risk factors:

The Fund’s investment strategy and liquidity during normal and reasonably foreseeable stressed conditions

Short and long term cash flow projections during normal and reasonably foreseeable stressed conditions

Holdings of cash and cash equivalents

Borrowing arrangements and other funding sources.

Governance. The Fund’s Board, including a majority of disinterested directors, must:

approve, and annually review, the Liquidity Program,

approve the appointment of a Liquidity Program Administrator (or committee), and

annually review the operation and assess the effectiveness of the Program.

Investment Classification. A Fund must classify, and review at least monthly, each of its investments into the Liquidity Categories, “using information obtained after reasonable inquiry and taking into account relevant market, trading and investment-specific considerations ...”

#### Error Correction.

Whenever its illiquid securities exceed 15%, a Fund must report to its Board within one business day, with a plan to bring the figure below 15% within a reasonable time.

Each Fund with an HLIM must adopt policies and procedures for responding to a shortfall, including board reporting and planning for correction of any shortfall lasting more than 7 days.

*Rule 22e-4(b)(1)(i)-(iv); (b)(2).*

### IV. REPORTING AND DISCLOSURE

Form N-PORT: This monthly report to the SEC about Fund portfolio holdings (replacing Form N-Q) will also require information, which will not be publicly available, on

the liquidity classification of portfolio securities, individually and in the aggregate; and a Fund’s HLIM and any shortfall incident.

Form N- LIQUID: A new nonpublic report to be filed with the SEC in the event of certain 15% illiquidity or HLIM shortfall situations.

Form N-1A. Fund prospectuses must contain additional disclosure about redemption practices. Item 11(c)(7), (8).

Shareholder Reports: The annual or semi-annual shareholder report, for the period during which the fund board completed its annual review of the liquidity risk management program review, must include a discussion of the operation and effectiveness of the program. (Form N-1A, Item 27(d)(7)(b); SEC Release No. IC-33142, June 28, 2018.)

V. COMPLIANCE DATES

|                                    | Large Fund Groups<br>(> \$1 B) | Smaller Groups |
|------------------------------------|--------------------------------|----------------|
| Liquidity Program                  | 12/1/2018                      | 6/1/2019       |
| Liquidity Recordkeeping (Internal) | 12/1/2018                      | 6/1/2019       |
| Liquidity Reporting on N-PORT      |                                |                |
| • Compliance (Data Collection)     | 6/1/2019                       | 3/1/2020       |
| • First N-PORT Filing (via EDGAR)  | 7/30/2019                      | 4/30/2020      |
| Shareholder Reports Issued After:  | 12/1/2019                      | 6/30/2020      |

*Liquidity Rule Adopting Release, No. IC-32315, pp. 307-310;  
SEC Rel. No. IC-32936 (12/8/2017), pp. 1, 8-10;  
SEC Rel. No. IC-33142 (6/28/2018), p. 36.*

Information above reflects a summary as of June 2018.  
Please refer to the rule and check for updates.