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SEC Proposes Rule to Govern Derivatives Trading by Registered Funds

WHAT HAPPENED?	On December 11th, the SEC proposed a new rule that seeks to impose additional regulations governing the use of derivatives by registered investment companies, including mutual funds, exchange-traded funds (ETFs) and closed-end funds, as well as business development companies.
WHAT DOES THIS MEAN?	The Investment Company Act currently places limitations on transactions involving potential futures trading, such as derivatives, and other financial commitment transactions. If the proposed rule is adopted, a fund would be required to segregate assets in an amount the SEC deems sufficient for the fund to fulfill its obligations under stressed conditions. Additionally, the fund would be required to meet one of the following portfolio limitations: • Exposure-Based Portfolio Limit: which requires the fund to limit its exposure to 150%. Generally, "'exposure' would be calculated as the aggregate notional amount of its derivatives transactions" plus other obligations, including financial commitment transactions. • Risk-Based Portfolio Limit: which enables a fund to obtain exposure up to 300%, provided it passes a certain risk based test. Funds that engage in derivatives trading over a de minimis amount would also be required to implement a formal derivatives risk management program. Additional reporting requirements may also be imposed. The Commission is considering whether it will propose amendments to Form N-Port and Form N-CEN.
NEXT STEPS	The proposed rule will be published on the SEC's website and in the Federal register. Thereafter, funds will have 90 days to comment on the proposal.

Source: SEC Release Dated 12.11.2015

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