

2013: DIVISION OF INVESTMENT MANAGEMENT YEAR IN REVIEW

The Division of Investment Management (IM) had a number of significant accomplishments in 2013 in fulfilling its mission to protect investors, promote informed investment decisions, and facilitate appropriate innovation in investment products and services through regulating the asset management industry.

The Division oversees over 11,000 registered investment advisers with more than \$55 trillion in assets under management and approximately 4,200 registered investment companies with more than \$17 trillion in assets. The funds overseen by the Division are the predominant way that American investors participate in the U.S. securities markets.

Intensified Rulemaking Program

- ▲ **Money Market Fund Reform:** IM staff helped to develop the money market reform alternatives that were unanimously proposed by the Commission on June 5, 2013. The proposal includes two principal reforms that could be adopted alone or in combination: a floating net asset value for prime institutional money market funds and the use of liquidity fees and redemption gates in times of stress.
- ▲ **Volcker Rule:** In collaboration with the Division of Trading and Markets and other Divisions, IM staff helped to develop a common final rule along with four other financial regulatory agencies, which was adopted on December 10, 2013 to implement the Dodd-Frank Act restrictions on proprietary trading and investments in and sponsorship of hedge funds and private equity funds by banks and their affiliates.
- ▲ **Ban On General Solicitation:** In collaboration with the Division of Corporation Finance, IM staff helped to develop the rule adopted by the Commission on July 10, 2013 to amend Rule 506 of Regulation D. The rule implements a requirement in the Jumpstart Our Business Startups (JOBS) Act to lift the ban on general solicitation and general advertising for a subset of Rule 506 offerings. IM staff, along with the Division of Corporation Finance, also developed the Commission's proposals to amend Regulation D, Form D and Securities Act Rule 156 that were issued the same



day as the adoption of the rule amendment lifting the ban on general solicitation. The proposals would require, among other things, issuers to provide the SEC with additional information about these securities offerings in order to enhance the agency's ability to evaluate the development of market practices in Rule 506 offerings.

- ▲ **Credit Rating References:** IM staff helped to develop amendments, which the Commission adopted on December 27, 2013, to eliminate references in certain of the Commission's rules and forms to credit ratings by nationally recognized statistical rating organizations. These amendments implement provisions of the Dodd-Frank Act regarding credit ratings.
- ▲ **Identity Theft Red Flags Rules:** IM staff helped to prepare rules and guidelines issued by the Commission and the CFTC on April 10, 2013. The rules require funds, broker-dealers, investment advisers and certain other regulated entities to adopt programs to guard against identity theft.

Identifying New and Emerging Risks

- ▲ **Enhanced Dialogue with the Industry:** The Division's Risk and Examinations Office monitors trends in the asset management industry by conducting rigorous quantitative and qualitative financial analysis of the industry, including strategically important investment advisers and funds. In 2013, IM staff, along with staff from the Office of Compliance Inspections and Examinations and the Division of Trading and Markets, met with senior management and fund boards of some of the largest and most complex asset management firms. These meetings provide an opportunity for IM staff to discuss risks with industry leaders and to evaluate the tone at the top in these firms. This work has informed the rest of the IM's work, including rulemaking and other investor protection initiatives.
- ▲ **Insight into Portfolio Management Practices:** Analysis of Form N-MFP data by IM staff have provided the Commission with insight into portfolio management practices of money market funds. The recent enforcement action against Ambassador Capital Management, a Detroit-based investment advisory firm, stemmed from an ongoing analysis of money market fund data by IM staff that involved a review of the gross yield of funds as a marker of risk.

Providing Timely Guidance

- ▲ **New Guidance Updates:** In 2013, the Division launched a new *Guidance Update* initiative. Guidance Updates, which are available on the IM webpage, supplement the traditional work of reviewing and issuing no-action and interpretive guidance and set forth IM staff's views on particular matters in a timely and transparent way. The 14 IM *Guidance Updates* provided in 2013 aim to improve industry compliance through

guidance on, among other things, [compliance with exemptive orders](#), [counterparty risk management practices with respect to tri-party repurchase agreements](#), and [privately offered securities under the Investment Advisers Act custody rule](#).

- ▲ In 2013, IM staff issued over 30 no-action and interpretive letters and responded to thousands of informal e-mail and phone inquiries from the public. In 2013, IM staff also assisted in a number of projects seeking to improve international coordination.

Ensuring High-Quality Disclosures and Information Sharing

- ▲ For calendar year 2013, IM reviewed approximately 650 initial registration statements, 1,675 post-effective amendments thereto, and 260 proxy statements. Also, for fiscal year 2013, IM completed reviews of disclosures, including financial statements, of over 4,680 funds, exceeding IM's fiscal year 2013 goal under the Sarbanes-Oxley Act of 2002 to review such disclosures at least once every three years.
- ▲ IM staff sharpened its focus on the adequacy of derivatives-related disclosures in the fund industry.
- ▲ IM staff provided guidance on disclosure for funds that invest in commodity interests.
- ▲ IM staff provided a [Guidance Update](#) cautioning against the use of the word "Protected" in the names of mutual funds to avoid misleading investors.

Continuous Improvement

IM continued conducting an ongoing review of the Division's strengths and weaknesses and implementing changes based on that review to promote a culture of continuous improvement. This review, dubbed "IM Moving Ahead," resulted in the reorganization of the Division to improve collaboration and enable staff working on similar issues to coordinate their efforts regardless of the form a request for guidance or a disclosure filing takes.

Moving Ahead

The Division's agenda for 2014 includes anticipated action on:

- ▲ Considering possible rules on disclosure by funds.
- ▲ Finalizing rulemakings to implement the JOBS Act and the Dodd-Frank Act.
- ▲ Advancing toward final rules to strengthen the resilience of money market funds and reduce the risk of runs.
- ▲ Continuing next steps in the Commission's investment adviser/broker-dealer initiative.
- ▲ Enhancing disclosure about variable annuities, an investment product often sold to seniors and others seeking ways to fund their retirement.

The Investment Management Division works to:

- ▲ protect investors
- ▲ promote informed investment decisions and
- ▲ facilitate appropriate innovation in investment products and services

through regulating the asset management industry.

If you have any questions about this IM Information Update, please contact:

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