

January 4, 2021

*Via Electronic Submission*

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: SEC proposed rule for Tailored Shareholder Reports, et al. File Number S7-09-20

Dear Ms. Countryman:

The American Bankers Association<sup>1</sup> (ABA) appreciates the opportunity to provide comments to the Securities and Exchange Commission (SEC) on its proposed rule and form amendments that would modernize the disclosure framework for open-end management investment companies (the Proposal). The proposed disclosure framework would require concise and visually engaging shareholder reports that would highlight key information of particular importance to retail investors in their assessment and monitoring of their fund investments. Under the proposal, certain information that may be less relevant to retail investors – and of more interest to financial professionals and investors who desire more in-depth information – would no longer appear in funds' shareholder reports. Instead, the reports would be available online, delivered free of charge upon request, and filed on a semi-annual basis on Form N-CSR (Form N-CSR or the Form).

The ABA, commenting on behalf of the Committee on Uniform Security Identification Procedures (CUSIP) and the banking industry, supports enhanced disclosure practices for retail investors as well as efficient markets. However, the ABA is concerned about Question 293 of the Proposal which requests comments on the use of securities identifiers on Item 6.b of the Form:

293.

*Form N-CSR currently requires funds that disclose divested securities under Item 6.b of the Form to include the Committee on Uniform Securities Identification Procedures (“CUSIP”) number for each divested security listed. Should we consider omitting Form N-CSR’s requirement to provide a CUSIP number for each divested security? Why or why not? Should we permit funds to provide, in lieu of a CUSIP number, other identifiers such as a Financial Instrument Global Identifier (FIGI) for each security? Why or why not? Would permitting*

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<sup>1</sup> The American Bankers Association is the voice of the nation’s \$18.6 trillion banking industry, which is composed of small, regional, and large banks that together employ more than 2 million people, safeguard \$14.5 trillion in deposits, and extend more than \$10.5 trillion in loans. Learn more at [www.aba.com](http://www.aba.com).

*voluntary use of an alternate identifier have a beneficial effect for investors, funds or users of the data?*

This question implies that the SEC is seeking to broaden the list of securities identifiers beyond the numbers designated by CUSIP, noting that the FIGI alternative is currently among the lesser known and developed securities identifiers.

Today, CUSIP is relied upon to provide reliable tracking across a myriad of asset classes – equities, municipal bonds, commercial paper, US treasury bonds, mortgage-backed securities, and bankers’ acceptances to name just a few. An overwhelming number of retail investors, US clearing corporations, regulators, and banking and market authorities recognize the value and reliability of the CUSIP system, established through half a century of working with market participants, supervisors and other stakeholders. It is vitally important therefore that the SEC proceed slowly and with caution so as not create any unforeseen consequences or undermine the confidence in, or efficiency of, securities markets.

Given the importance of the security identification numbers to global financial markets, we urge the SEC to fully study the consequences of new and multiple identifiers, and promulgate any rulemakings or other changes, through sufficient notice and comment. Additionally, for reasons described below, ABA recommends that the SEC keep the CUSIP reference in Form N-CSR.

### **CUSIP identifiers are the foundation of efficient securities markets.**

The CUSIP identification system, which establishes a **consistent and unifying** system for the trading, clearing, settlement, and reporting of securities, was created in 1964. CUSIP established the directory of unique securities identifiers, the first iteration of which was published in 1968.<sup>2</sup> Prior to the development of CUSIP, the market experienced widespread inefficiencies stemming from incompatible identification schema, ultimately resulting in a securities settlement “paper crunch.” The inefficiencies lead to numerous trade fails and broker-dealer exposure to operational risk. ABA together with the NY Clearing House Association, established a system to allocate a unique identification number to every publicly-traded security. The unique number enhances market efficiency by helping ensure securities trades are processed, cleared and settled quickly and accurately. This in turn, increases investors’ confidence and mitigates broker-dealers’ operational risk. For over fifty years, in parallel with widespread input from and adoption and implementation by market participants, an overwhelming number of US clearing corporations, regulators, and market authorities came to recognize the value and reliability of the CUSIP system. Sustained innovation and investment has been the key to CUSIP’s success and it continues to power efficient capital markets through the unique identification of securities across a myriad of asset classes – equities, municipal bonds, commercial paper, US treasury bonds, mortgage-backed securities, and bankers’ acceptances to name just a few.

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<sup>2</sup> “...The CUSIP system represents the foundation of the program to improve the speed and accuracy in the processing of securities and transactions involving them. We urge you to build upon that foundation as quickly as possible and again congratulate all of the organizations and individuals who participated in the development of the CUSIP system for their noteworthy achievement.” – SEC Chairman Hamer Budge, June 20<sup>th</sup> 1969

Importantly, producing accurate security identifiers that markets, investors, and other stakeholders can rely on to provide global financial markets transparency is a difficult task, which requires adherence to strict governance and other processes. CUSIP Global Services (CGS), the administrator of CUSIP, exists solely to provide transparency, accuracy, and consistency in reference data by focusing exclusively on creating a universally recognized and trusted procedure for security identification. In their role, CGS not only assigns identifiers, the numbering agency also methodically scrutinizes offering documents and dissects their element parts before individual securities are taken to market; expands CUSIP coverage into new asset classes as markets grow and continuously adjusts and updates CUSIP elements as security issuers merge, split or change names. This attention to detail is imperative for any single inconsistency in the identifications schemas used by different institutions or incompatible data set in the risk systems or automated trading algorithms that are ubiquitous in today's markets has the power to grind markets to a halt. Failed trades already cost our industry north of a billion dollars a year – “A little-discussed problem has plagued the financial services industry for decades: a high percentage of trades break down — perhaps as many as 30% to 45%. Capital markets firms will spend about \$1.2 billion next year on reconciliation technology and services, including external and internal investment, according to Aite Group.”<sup>3</sup>

### **Form N-CSR should continue to utilize CUSIP identifiers.**

Form N-CSR is intended to be used by investment management companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles. Item 6.b requires the registrant to provide certain information, including the CUSIP, for all securities divested in accordance with Section 13(c) of the Investment Company Act of 1940.

The inclusion of the CUSIP provides easy access to key data which allows investors to cross reference information against other transactions and activities. Just as with clearing and settlement, the use of CUSIP identifiers within Form N-CSR has helped foster market transparency and consistency by ensuring uniformity across all investment managers reporting divestitures. To be more specific, when reporting the divestiture of, for example Microsoft Common Stock, investment managers would reference its CUSIP **594918 10 4**. Importantly, all investment managers reporting a divestiture of Microsoft shares would use the same CUSIP when reporting. This consistent format is not only simple, based on an identifier already used widely by the industry, but importantly it provides a reliably uniform source of information for management investment companies and investors alike.

### **Additional Identifiers would result in inconsistent and unreliable reporting.**

In the request for comments, Question 293 addresses the potential use of additional identifiers in Form N-CSR, specifically mentioning the Financial Instrument Global Identifier (FIGI).

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<sup>3</sup> *Financial Industry is flummoxed by trade failures—summary*, American Banker, August 28, 2015

ABA believes that the sudden introduction and use of other identifiers such as FIGI would be extremely disruptive to the consistency and reliability required in Form N-CSR reporting and desired by market participants:

*1. Consistency across reporting investment managers would be impossible*

Allow us to illustrate how the use of alternative identifiers in Form N-CSR would eliminate consistency. For example, for Microsoft Common Stock with CUSIP **594918 10 4**, one of the relevant FIGIs is **BBG000BPH459**. If two different investment managers were to report using the different identifiers, the transparency and consistency of Form N-CSR is quickly lost for all market participants, especially when the difference is compounded over thousands of reportable divestitures.

*2. Fungibility is critical for reliable reporting*

A critical aspect of the CUSIP numbering system is that it solves the industry-driven need for fungibility. Using the Microsoft Common Stock example, this means that an instrument is the same for the purpose of unique identification *regardless of the venue of execution*. Specifically, as applied to Form N-CSR, this means that divestitures of Microsoft are to be reported with the CUSIP **594918 10 4**, regardless of the exchange where the divestiture occurred.

Other identification schemas, including FIGI, create multiple identifiers for the same common stock *depending on the US Exchange where the shares are purchased*. To give a sense of the magnitude of the problem, while for Microsoft Common Stock there is one (1) CUSIP, at least 135 FIGIs exist depending on the venue where the instrument is traded. A single investment manager may report on the divestiture of Microsoft Common Stock for different customers in 135 different ways. Two investment managers reporting on the same divestiture would have billions of possibilities for inconsistent reports due to the use of different FIGI identifiers.

To further illustrate the concern regarding fungibility, the 135 FIGIs for Microsoft Common Stock, include the following corresponding to some of the US trading venues:

	<b>Trading Venue</b>
<b>BBG000BPH9J3</b>	NASDAQ OMX PSX
<b>BBG000BPH459</b>	Composite venue for all US exchanges
<b>BBG000BPH6D5</b>	NYSE ARCA
<b>BBG000BPH654</b>	NEW YORK STOCK EXCHANGE INC
<b>BBG000BPH958</b>	CHICAGO STOCK EXCHANGE
<b>BBG000BPHG07</b>	BATS Z-EXCHANGE
<b>BBG000BPHD40</b>	FINRA ALTERNATIVE DISPLAY FACILITY
<b>BBG000BPH583</b>	NATIONAL STOCK EXCHANGE INC
<b>BBG000BPH8J5</b>	NASDAQ OMX BX
<b>BBG000BPH4R5</b>	NYSE MKT LLC

Clearly, if one management investment company bought Microsoft common stock on the NYSE MKT, thus using BBG000BPH4R5, and another on the NYSE Inc. using BBG000BPH654, they could report any subsequent divestiture of those shares using two different FIGI identifiers in their respective Forms N-CSR, *even while using the same identification schema*. Note how nuanced the difference could be – NYSE vs NYSE MKT, where NYSE MKT is the NYSE’s emerging company marketplace for smaller-cap companies with lower listing requirements.

The reliability/consistency concern of using identifiers that are linked to trading venues reaches far beyond Microsoft common stock. If, for example, the management investment company had to report the divestiture of the widely held SPDR S&P 500 ETF TRUST, it would use the single fungible CUSIP **78462F 10 3**. On the other hand, the list of **80 possible FIGIs** to use includes:

**BBG000BDTNV2**

**BBG000BDTMT7**

**BBG000BDTG10**

**BBG000BDTF76**

**BBG000BDTGV7**

**BBG000BDTHF3**

**BBG000DJ5D26**

**BBG000BDTNF0**

**BBG000BDTDK6**

**BBG000BDTN60**

**BBG000BDTGK9**

**BBG000BDTL00**

**BBG000BDTC00**

**BBG000BDTC82**

**BBG000BDTBL9**

The multiplicity of identifiers is a deliberate feature of the FIGI system and would likely lead to inefficiency, errors, and outright confusion in the reporting and monitoring of divested securities, thus undermining the very purpose of Form N-CSR.

*3. Focusing on a lesser used standard over the widely accepted global/local ISIN-based identification approach would be ill-advised*

A global/local ISIN-based identification model prevails worldwide. Approximately 120 global stock exchanges, securities depositories, and national numbering agencies rely and support ISIN as the single cross-border ISO instrument identification standard. They also actively rely on and support the use of ISIN in combination with other ISO standards (like the ISO 10962 CFI, FISN ISO 18774 FISN, ISO 10383 MIC, and ISO 17442 LEI) to meet a variety of market needs.

To highlight the local/global approach, in the United States, the local identifier is the CUSIP and ISIN for US securities is based on the CUSIP. The Depository Trust and Clearing Corp (DTCC) uses both ISINs and CUSIPs for various critical functions. Analogously in the UK, the Stock Exchange Daily Official List (SEDOL) is used as a local identifier and also as an input for the ISIN on a cross-border, global basis. In that same spirit, the Swiss NNA SIX Financial Limited

bases its ISINs on the local Valor Number, and global securities depositories EuroClear and Clearstream predicate their ISINs on their underlying Common code structure. Significant global adoption by exchanges, utilities and regulators also include the Hong Kong Exchange (HKExis responsible for ISINs in China), The Securities and Exchange Board of India (responsible for the management of ISIN in India), and Bursa Malaysia who handles Malaysian ISIN administration. .

Lastly, according to a 2020 survey conducted by CGS of Asset Managers, Broker Dealers, Bond Counsels, Regulators, Insurance Firms, Custodian Banks, Commercial and Investment Banks, Information Service Providers, Community Banks, Municipal Advisors, Mutual Fund Administrators, Real Estate Trust Companies, Index Providers, and Proxy Intermediaries, when asked to “select all the other identifiers your firm relies upon from Exchange Ticker, FIGI, ISIN, LoanX ID, SEDOL and Other,” in addition to CUSIP, the results were as follows:

- 50% of responses indicated ISIN
- 30% of responses indicated Exchange Ticker
- 12% of responses indicated SEDOL
- 20% of responses indicated Other (with 40% of these indicating no other ID necessary)
- 3% of responses indicated LoanX ID
- 1% of responses indicated FIGI

Based on the prevalence of the world-wide global/local ISIN-based identification model and the much more limited use of FIGI, the ABA again urges the SEC to take a cautious approach to alternative securities identifiers.

## Summary

The existing Form N-CSR has served the Commission, investment management companies, and the investor community well. Fundamentally, the form can be trusted due to its well-established consistency and transparency. Per Question 293 of the Proposal, ABA respectfully requests that the SEC make no changes to the current singular use of CUSIP as the divested securities identifier required by Item 6.b of Form N-CSR. Allowing security identifiers other than CUSIP would lead to the same inconsistent use of identification schemas by industry stakeholders that resulted in the creation of the CUSIP standard over 50 years ago.

The ABA respectfully submits that the introduction of a second identifier as suggested in the Proposal, even if optional, would result in unnecessary ambiguity and confusion for the reasons set forth above, while also adding an unknown cost burden stemming from identifier inconsistency. In other words, going back to a pre-CUSIP environment where different firms could use different identifiers for reporting would set the industry back, not move it forward.

Thank you for your consideration of our views and recommendations. If you have any questions or require any additional information, please do not hesitate to contact the undersigned at [REDACTED] ([REDACTED]).

Sincerely,

A handwritten signature in cursive script that reads "Tab Stewart". The signature is written in black ink and is positioned above the printed name and title.

Tab Stewart  
Senior Vice President, Financial Services Standards  
American Bankers Association