

Chapman Client Alert

March 11, 2016

Current Issues Relevant to Our Clients

SEC Issues Guidance on Fund Disclosure of Risks Related to Current Market Conditions

The staff of the Securities and Exchange Commission's Division of Investment Management recently released guidance regarding registered investment company risk disclosure. The staff indicates that the guidance is intended to address changes that occur in funds' susceptibility to risk that may result from changes in market conditions and the need for funds to review and assess risk disclosures in light of changing market conditions. The full text of the guidance update is available [here](#).

Summary of Staff Guidance

In its guidance, the staff provides its view that undertaking the following steps on an ongoing basis should help funds in providing risk disclosures to investors that remain robust in changing market conditions:

- **Monitor market conditions and their impact on fund risks:** The staff suggests that advisers should monitor market conditions for their impact on each fund and the risks associated with its investments.
- **Assess whether fund risks have been adequately communicated to investors in light of current market conditions:** The staff suggests that funds should assess whether changes in current market conditions that have resulted in changes to a fund's risks are material and, if so, whether a fund's existing disclosures are adequate in light of changed conditions.
- **Communicate with investors:** The staff suggests that where a fund determines that current disclosures do not adequately communicate material changes to a fund's risks, the fund should provide updated communications to investors in the manner required by federal securities laws and as otherwise appropriate.

The staff notes that many fund boards request that the fund's adviser report to the board on its process for preparing the fund's disclosure materials. As part of this process, the staff believes that a fund's adviser should consider providing

information to the fund board on the steps taken by the adviser to evaluate fund risk disclosures and consider whether changes are appropriate.

Examples

The staff provides examples of the types of risk disclosures it has seen recently in two circumstances where market conditions are changing. The staff notes that it has observed disclosures of risk in prospectuses, shareholder reports and fund websites that it believes have made risk disclosures more timely, meaningful and complete. The staff believes that such disclosures could help investors better evaluate the risks of investment in a fund in light of changing circumstances. The staff's examples relate to:

- **Fixed Income Funds.** The staff provides examples of types of disclosures by fixed income funds regarding interest rate risk, liquidity risk and duration risk that it believes may be useful to investors in these funds given changing market conditions.
- **Puerto Rico Debt.** The staff provides examples of types of disclosures by funds that have exposure to Puerto Rico debt that it believes may be useful to investors in these funds given ongoing concerns about Puerto Rico debt.

For More Information

To discuss any topic covered in this Client Alert, please contact a member of the Investment Management Group or visit us online at chapman.com.

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