MANAGED FUNDS ASSOCIATION

AIMA

March 12, 2018

Via Electronic Delivery: PRA_Mailbox@sec.gov

Pamela Dyson
Director/Chief Information Officer
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Proposed Collection; Form PF Comment Request

Dear Ms. Dyson:

Managed Funds Association[1] ("**MFA**") and the Alternative Investment Management Association[2] ("**AIMA**") (together, the "**Associations**") appreciate the opportunity to submit comments to the Securities and Exchange Commission ("**SEC**" or "**Commission**") on its comment request, pursuant to the Paperwork Reduction Act of 1995, concerning the collection of information through the SEC's Form PF ("**Comment Request**").[3] The Comment Request asks for views on:

[1] Managed Funds Association ("MFA") represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry's contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

[2] The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than $2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides**.** AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 100 members that manage $350 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

[3] 83 Fed. Reg. 1,278 (Jan. 10, 2018), available at: https://www.gpo.gov/fdsys/pkg/FR-2018-01-10/pdf/2018-00267.pdf.

(a) Whether the collection of information is necessary for the proper performance of the functions of the Commission, including whether the information has practical utility;

(b) The accuracy of the Commission's estimate of the burden of the collection of information;

(c) Ways to enhance the quality, utility, and clarity of the information collected; and

(d) Ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology.

The Associations support the Commission's role in overseeing systemic risk from the activities of investment advisers through private fund reports. After more than five years of filings, however, we believe it is time for the Commission to review Form PF and consider how it could be streamlined to reduce the regulatory burden for filers, while still accomplishing its policy goals by providing critical information to the Commission and the Financial Stability Oversight Council. We believe Form PF should be simplified, consistent with the Trump Administration's 2017 Regulatory Plan to reduce regulatory burdens,[4] the Department of Treasury's recommendation that the SEC, the Commodity Futures Trading Commission, and self-regulatory organizations work together to rationalize and harmonize asset management reporting regimes,[5] and the Office of Financial Research's initial findings with respect to reducing regulatory reporting burdens for financial institutions, including advisers of private funds.[6] Additionally, considering the increasing cyber risk, we think the Commission should incorporate protections within the design of its Form PF to mitigate cyber breaches, such as by enabling registrants to use alphanumeric identifiers in filings instead of firm or individually identifying information.[7]

In reviewing Form PF, we believe that a number of the questions in the form are unnecessary because they do not serve an investor protection or systemic risk-related purpose, two of the stated objectives of gathering the information on Form PF, or are only tangentially related to systemic risk.[8] For example, we believe the Commission should reduce the number of scenarios on which Form PF requests information, limiting the form's questions to those scenarios that

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[4] *See* The Regulatory Plan – OIRA Introduction to the Fall 2017 Regulatory Plan, Office of Information and Regulatory Affairs, available at: https://www.reginfo.gov/public/jsp/eAgenda/StaticContent/201710/VPStatement.pdf.

[5] *See* A Financial System That Creates Economic Opportunities – Asset Management and Insurance, Department of the Treasury, October 2017, available at: https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-That-Creates-Economic-Opportunities-Asset_Management-Insurance.pdf.

[6] *See* Annual Report to Congress 2017, Office of Financial Research, available at: https://www.financialresearch.gov/annual-reports/files/office-of-financial-research-annual-report-2017.pdf.

[7] *See* letter from Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, MFA, to Jay Clayton, Chairman, SEC, dated October 17, 2017, on the Protection of Confidential Registrant Information, available at: https://www.managedfunds.org/wp-content/uploads/2017/10/MFA.RIA-data-security.final_.10.17.17-1.pdf.

[8] *See* 76 Fed. Reg. 71,128 (Nov. 16, 2011), available at: https://www.gpo.gov/fdsys/pkg/FR-2011-11-16/pdf/2011-28549.pdf.

reflect actual market stress; consolidate and revise multiple Form PF questions regarding borrowing and counterparty exposures; and simplify Form PF questions to use categories rather than requiring complex calculations, such as those about large fund investors. We believe that the Commission should revise Form PF to focus more narrowly on issues related to systemic risk and investor protection. Doing so would greatly reduce the burden on registrants, while maintaining the original objectives of collecting the information required on the form.

A. Reduce the Frequency of the Reporting and the Number of Month-End Data Points

The Associations believe that the Commission should reduce the frequency in which large hedge fund advisers[9] must update Form PF. Currently, large hedge fund advisers must file a quarterly update after the end of each fiscal quarter, and the report must include information for each month end. Members of the Associations find the quarterly filing requirement for large hedge fund advisers to be the most burdensome aspect of Form PF. While large hedge fund advisers have been able to automate many of their processes for collecting Form PF data, they still must spend significant time reviewing data and preparing responses. This is in part due to the format of questions and responses in Form PF, which require a high degree of precision and calculation rather than allowing a filer to check a box or select a numeric range for a response. For a registrant submitting four reports a year, the amount of work that goes into the filings can be akin to completing four financial audits because of the precision required in responding to the questions.

The Comment Request estimates for a large hedge fund adviser that it will take an average burden of 610 hours for each of the first three years and an average burden of 560 hours for each of next three years with respect to Form PF filings. The Associations conducted a blind survey of their members and from the sample of firms that responded ("**Associations' Survey**"), found that:

- 46% of respondents spent between 250 and 650 hours/year for initial filings;
- 54% of respondents spent between 650 and greater than 950 hours/year for initial filings;
- 67% of respondents spent between 250 and 550 hours/year on subsequent filings; and
- 33% of respondents spent between 550 and greater than 950 hours/year on subsequent filings.

In the adopting release for Form PF, the Commission estimated that it would cost $38,800 per large hedge fund adviser to file each subsequent Form PF report.[10] The Associations' Survey found the cost per subsequent quarterly filing for a large hedge fund adviser ranged from a

[9] We note that the Commission has defined "large hedge fund adviser" to be an advisor and its related persons that collectively have at least $1.5 billion in hedge fund assets under management as of the last day of any month in the fiscal quarter immediately preceding its most recently completed fiscal quarter. We think this is a relatively low threshold for systemic risk purposes.

[10] *See* 76 Fed. Reg. 71,128 (Nov. 16, 2011), available at: https://www.gpo.gov/fdsys/pkg/FR-2011-11-16/pdf/2011-28549.pdf.

conservative average of $46,000 to $59,000 per year.[11] We believe our estimate is conservative because our survey capped third-party vendor costs at $100,000/year and the number of hours spent on filings at 950 hours/year; and although our members provided information for the cost of completing the form for 2017, we note that these costs are most likely to increase over time. Our members find the quarterly Form PF reports to be very burdensome and expensive. Reducing the frequency in which large hedge fund advisers must update Form PF and the number of monthly data points would significantly reduce the costs and burdens associated with Form PF.

As such, we urge the Commission to make the Form PF reports less burdensome by decreasing the number of reports a large hedge fund adviser must file and on the number of months for which an adviser must report. We believe the Commission should require an adviser to file an annual Form PF report and provide information at two time periods—at the end of the second quarter and the end of the fourth quarter. This method and frequency of data-gathering would be consistent with the method and frequency of reporting that registered investment advisers are required to provide with respect to separately managed accounts on Form ADV. As demonstrated by the SEC staff's analysis of private fund filings in Private Funds Statistics,[12] changes that are systemically relevant occur very gradually. Thus, we do not believe that the Commission needs to collect fund-level data for each month and quarter for purposes of determining systemic risk. Creating an alignment between the frequency of reporting on private funds and separately managed accounts would also help eliminate some of the burden on registered investment advisers that advise both private funds and separately managed accounts because the data collection process could be combined and streamlined into an annual project that satisfies reporting on both forms.

We also think the Commission should increase the threshold for a "large hedge fund adviser" as we believe that too many advisers that present no possibility of systemic risk are captured as large hedge fund advisers.[13] Based on the SEC's public information on registered investment advisers, it appears that the current $1.5 billion regulatory assets under management ("**RAUM**") threshold captures 96.67% of all RAUM attributable to private funds reported on Form ADV.[14] Increasing the $1.5 billion RAUM reporting threshold modestly would exempt many of the managers of smaller funds from the quarterly Form PF reporting requirement. This change would still ensure that managers with the vast majority of RAUM would remain subject to the reporting requirement. Raising the large hedge fund adviser reporting threshold would decrease the overall burden to the hedge fund adviser industry.

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[11] Our survey provided response choices for the number of burden hours in increments of 100 hours, and hourly cost in increments of $50. Our estimate is conservative as 38% of respondents spent either over $100,000/year in third party vendor expenses or over 950 hours/year on Form PF.

[12] *See* Private Funds Statistics, SEC Division of Investment Management Analytics Office, January 17, 2018, available at: https://www.sec.gov/divisions/investment/private-funds-statistics.shtml.

[13] For example, despite a loss of more than $5 billion, the collapse of the Amaranth Advisors hedge fund did not have a big impact on the broader markets. *See, e.g.,* Hedge Fund's Collapse Met with a Shrug, Washington Post, Sept. 20, 2006, available at: http://www.washingtonpost.com/wp-dyn/content/article/2006/09/19/AR2006091901388.html.

[14] *See* Investment Adviser Data from: https://www.adviserinfo.sec.gov/IAPD/InvestmentAdviserData.aspx. We used the data from March 2018.

To address the concern of having timely market information to monitor for potential systemic risk concerns during periods of market stress, the Commission should seek additional transaction data from banks, broker-dealers, and central counterparty clearing houses as well as through the consolidated audit trail. In this way, the Commission would have more detailed, timely, consistent and rich data during times of market stress, or even on an *ad-hoc* basis, from several significant registrants, rather than through several thousand fund reports. Such data would be superior to the Form PF reports for purposes of understanding and addressing systemic risk. In addition, the Commission has the authority to directly engage with registrants to seek additional information and market color. We believe the Commission can effectively oversee systemic risk of private fund advisers through a simpler and shorter Form PF, perhaps similar to the new reporting required with respect to separately managed accounts, and reduce the real economic costs to the industry associated with Form PF reporting.

Accordingly, the Associations respectfully urge the Commission to require large hedge fund advisers to only make an annual Form PF filing, requiring reporting information from the end of the second quarter and the end of the fourth quarter, rather than monthly. The Associations also recommend that the Commission increase the large hedge fund adviser reporting threshold above $1.5 billion; consider seeking transaction data from banks, broker-dealers, and central counterparty clearing houses and through the consolidated audit trail, as needed, for purposes of understanding and addressing systemic risk; and consider directly engaging with registrants to seek additional information and market color with respect to systemic risk on an as needed basis after obtaining more abbreviated information than is currently required on Form PF.

B. Simplify Form PF Questions to Better Identify Potential Systemic Risk.

The Associations believe questions in Form PF should be revised to more specifically and accurately focus on systemic risk. We are concerned that questions on Form PF request information regarding credit exposures and potential systemic risk in ways that are inconsistent with the approach used by financial regulators for securities dealers and banks, and how the industry measures risk. We also believe that the Commission could simplify Form PF by reducing the number of thresholds used on questions in the form related to investment concentration or market stress.

Finally, we think it is an appropriate time to review Form PF as a whole, as certain questions may not be as relevant as regulators thought that they were eight years ago, given certain regulatory developments since the adoption of Form PF, such as the adoption of swaps and security-based swaps regulation, enhanced trading regulations and the consolidated audit trail. We do not make the above recommendations lightly as we note that the industry spent significant time and money building systems, programs and processes to respond to Form PF, and any changes to Form PF will again require our members to expend further resources to build or change their systems, programs and processes. Nevertheless, we believe revising Form PF to address the above concerns would greatly reduce the overall burdens associated with Form PF, while enhancing the effectiveness utility of the information provided to the Commission.

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We look forward to discussing our Form PF recommendations with the Commission and its staff. Please feel free to contact Jennifer Han, Associate General Counsel, MFA, or Stuart J. Kaswell, Executive Vice President, MFA, at (202) 730-2600, and Jennifer Wood, Managing Director, AIMA, or Jiří Król, Deputy CEO, AIMA at +44 20 7822 8380.

Respectfully submitted,

/s/ Stuart J. Kaswell

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/s/ Jiří Król

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CC: Neomi Rao, Administrator, Office of Information and Regulatory Affairs