

unfairly inhibit access to OCC's services or disadvantage or favor any particular user in relationship to another user. In addition, the proposal currently applies uniformly to all Clearing Members in establishing their margin requirements.

For the foregoing reasons, OCC believes that the proposed rule change is in the public interest, would be consistent with the requirements of the Act applicable to clearing agencies, and would not impact or impose a burden on competition.

*(C) Clearing Agency's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others*

Written comments were not and are not intended to be solicited with respect to the proposed rule change and none have been received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 45 days of the date of publication of this notice in the **Federal Register** or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Exchange Act. Comments may be submitted by any of the following methods:

*Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-OCC-2020-016 on the subject line.

*Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090. All submissions should refer to File Number SR-OCC-2020-016. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use

only one method. The Commission will post all comments on the Commission's internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal office of OCC and on OCC's website at <https://www.theocc.com/Company-Information/Documents-and-Archives/By-Laws-and-Rules#rule-filings>.

All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-OCC-2020-016 and should be submitted on or before January 19, 2021.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>74</sup>

**J. Matthew DeLesDernier,**  
Assistant Secretary.

[FR Doc. 2020-28662 Filed 12-28-20; 8:45 am]

**BILLING CODE 8011-01-P**

**SECURITIES AND EXCHANGE COMMISSION**

**[Investment Company Act Release No. 34150; 812-15158]**

**J.P. Morgan Investment Management Inc., et al.; Notice of Application**

December 22, 2020.

**AGENCY:** Securities and Exchange Commission ("Commission").

**ACTION:** Notice.

**SUMMARY:** J.P. Morgan Investment Management Inc., et al. have applied for exemption from rules within the Investment Company Act of 1940 to use an Amended Liquidity Program for the Covered Funds.

**DATES:** The application was filed on September 14, 2020, and amended on November 20, 2020.

**ADDRESSES:** The Commission: *Secretarys-Office@sec.gov*. Applicants: Margery K. Neale and Anne Choe, Willkie Farr & Gallagher LLP, at *MNeale@willkie.com* or *AChoe@willkie.com*, respectively.

**FOR FURTHER INFORMATION CONTACT:** Jessica Shin, Attorney-Adviser, at (202) 551-3685, or Daniele Marchesani, Assistant Chief Counsel, at (202) 551-6821 (Division of Investment Management, Chief Counsel's Office), or Thoreau Bartmann, Senior Special Counsel, at (202) 551-6745.

**SUPPLEMENTARY INFORMATION:** Notice of an application by J.P. Morgan Investment Management Inc., et al. under section 6(c) of the Investment Company Act of 1940 ("Act") for an exemption from rules 22e-4(a)(6), 22e-4(a)(8), 22e-4(a)(10), 22e-4(a)(12), 22e-4(b)(1)(ii), 22e-4(b)(1)(iii), and 22e-4(b)(1)(iv) under the Act, and for an exemption from Items B.7, B.8 and C.7 of Form N-PORT and from Parts B through D of Form N-LIQUID, to the extent necessary to use an Amended Liquidity Program for the Covered Funds.

**Applicants:**  
Each registered open-end management investment company listed in Exhibit A of the Application (the "Companies"), on its own behalf and on behalf of its respective underlying series listed in Exhibit A of the Application (each such series, a "JPM Fund"), and J.P. Morgan Investment Management Inc. ("JPMIM") and collectively with the Companies, the "Applicants").

**Summary of Application:**  
The requested exemptions would permit Applicants to use the Amended Liquidity Program for the Covered Funds. The Amended Liquidity Program would replace rule 22e-4's liquidity classification system with core elements of an alternative liquidity classification methodology generated under a Liquidity Risk Framework (as defined below) established by JPMIM and its affiliates (collectively, "JPM"). The Applicants would also modify related reporting requirements on Form N-PORT and Form N-LIQUID solely to the extent necessary to implement the Amended Liquidity Program.

**Hearing or Notification of Hearing:**

An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by emailing the Commission's Secretary at *Secretarys-Office@sec.gov* and serving Applicants with a copy of the request by email.

<sup>74</sup> 17 CFR 200.30-3(a)(12).

Hearing requests should be received by the Commission by 5:30 p.m. on January 19, 2021, and should be accompanied by proof of service on the Applicants, in the form of an affidavit or, for lawyers, a certificate of service. Pursuant to rule 0–5 under the Act, hearing requests should state the nature of the writer's interest, any facts bearing upon the desirability of a hearing on the matter, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by emailing the Commission's Secretary at *Secretaries-Office@sec.gov*.

The following is a summary of the application. The complete application may be obtained via the Commission's website by searching for the file number or an Applicant using the "Company" name box, at <http://www.sec.gov/search/search.htm> or by calling (202) 551-8090.

## I. Applicants

1. Each JPM Fund that is advised by JPMIM and that has adopted the Existing 22e–4 Program (as defined below) is listed in Exhibit A of the Application. Applicants request that the order apply to any additional or new series of a Company and any other registered open-end management investment company or series thereof that currently exists or may be created in the future that is subject to rule 22e–4 and for which JPMIM or any successor thereto or an investment adviser controlling, controlled by, or under common control (within the meaning of section 2(a)(9) of the Act) with JPMIM or any successor thereto serves as investment adviser (each such investment company or a series thereof, a "Future Fund" and collectively with the JPM Funds, the "Covered Funds," and each such investment adviser collectively with JPMIM, an "Adviser").<sup>1</sup>

2. JPMIM serves as the investment adviser to the JPM Funds. JPMIM is a Delaware corporation with its principal place of business in New York, New York. JPMIM is, and any other Adviser will be, registered with the SEC as an investment adviser under section 203 of the Investment Advisers Act of 1940.

## II. Background

3. Applicants request an exemptive order to use a proposed liquidity risk management program for the Covered Funds that reflects certain differences

from the requirements of rule 22e–4 as described in this Notice and also specified in the Application ("Amended Liquidity Program").

4. Since 2016, and independent of the adoption of rule 22e–4, JPM developed and implemented an alternative liquidity classification methodology generated under its liquidity risk framework (the "Liquidity Risk Framework"). JPMIM applies the Liquidity Risk Framework to investment funds it advises globally, including investment funds that are not registered under the Act and, therefore, not subject to rule 22e–4. The Liquidity Risk Framework includes a quantitative assessment of liquidity risk and is an essential component of the Existing 22e–4 Program. The Amended Liquidity Program will replace the liquidity classification system used in the JPM Funds' existing liquidity risk management program, which complies with the requirements of rule 22e–4 ("Existing 22e–4 Program"). However, because the framework does not use the classification methodology of rule 22e–4, JPM maintains a second classification methodology under the Existing 22e–4 Program solely to satisfy the specific requirements of rule 22e–4, including for purposes of complying with rule 22e–4's classification, illiquid investment limitation, highly liquid investment minimum, and related reporting requirements. The requested relief would allow the Applicants to solely maintain the classification methodology generated under JPM's Liquidity Risk Framework and discontinue the operation of JPM Funds' second liquidity classification program under the Existing 22e–4 Program for the JPM Funds. This would enable JPM to avoid maintaining dual classification methodologies.

### Rule 22e–4 and Related Reporting Requirements

5. Rule 22e–4 requires each open-end registered investment company, excluding money market funds (each, a "fund"),<sup>2</sup> to establish a written liquidity risk management program to assess, manage, and periodically review its liquidity risk. Rule 22e–4 requires a fund to classify each of its portfolio investments, including its derivatives transactions, into one of four liquidity categories: "highly liquid investments,"<sup>3</sup> "moderately liquid investments,"<sup>4</sup> "less liquid

investments,"<sup>5</sup> and "illiquid investments"<sup>6</sup> (together, the "four buckets"). The classification process of rule 22e–4 requires funds to classify portfolio investments into one of the four buckets generally based on the time the fund reasonably expects to be able to convert the investment to cash in current market conditions without significantly changing the market value of the investment. In determining the appropriate bucket, the fund must also take into account the fund's ability to trade varying portions of a position in a particular portfolio investment or asset class, in sizes that it reasonably anticipates trading, without reasonably expecting to significantly affect the investment's liquidity (referred to as "RATS").<sup>7</sup> It also must take into account relevant market, trading, and investment-specific considerations.<sup>8</sup>

6. Additional requirements in rule 22e–4 are triggered from the definitions of the four buckets. In particular, a fund that does not primarily hold assets that are highly liquid investments is required to determine a minimum level of highly liquid investments (the "HLIM"), and take certain related actions.<sup>9</sup> Further, a fund may not acquire additional illiquid investments if, after the acquisition, it would hold more than 15% of its net assets in illiquid investments.<sup>10</sup> Additionally, in classifying its investments, a fund must identify the percentage of the fund's highly liquid investments that it has segregated or pledged in connection with derivatives transactions that are "moderately liquid", "less liquid", and "illiquid investments".<sup>11</sup> Furthermore, for purposes of determining whether a fund primarily holds assets that are "highly liquid investments", a fund must exclude from its calculations the percentage of the fund's assets that are "highly liquid investments" that it has segregated to cover all derivatives transactions that the fund has classified as "moderately liquid", "less liquid", and "illiquid investments", or pledged to satisfy margin requirements in connection with those derivatives transactions, as determined pursuant to paragraph (b)(1)(ii)(C) of rule 22e–4.<sup>12</sup>

7. Rule 22e–4 also requires funds to use the classification under the four buckets for purposes of Form N–PORT reporting. In particular, Item B.7 of

<sup>5</sup> Rule 22e–4(a)(10).

<sup>6</sup> Rule 22e–4(a)(8).

<sup>7</sup> Rule 22e–4(b)(1)(ii)(B).

<sup>8</sup> Rule 22e–4(b)(1)(ii).

<sup>9</sup> Rule 22e–4(b)(1)(iii).

<sup>10</sup> Rule 22e–4(b)(1)(iv).

<sup>11</sup> Rule 22e–4(b)(1)(ii)(C).

<sup>12</sup> Rule 22e–4(b)(1)(iii)(B).

<sup>1</sup> All existing entities that intend to rely on the requested order have been included in Exhibit A to the Application. Any other existing or future entity that subsequently relies on the order will comply with the terms and conditions of the order.

<sup>2</sup> Money-market funds are subject to separate liquidity requirements pursuant to rule 2a–7 under the Act.

<sup>3</sup> Rule 22e–4(a)(6).

<sup>4</sup> Rule 22e–4(a)(12).

Form N–PORT requires a fund to report, as applicable, its HLIM, the number of days the fund was below such HLIM, and any changes to the HLIM during the reporting period. Item B.8 requires disclosure of the percentage of a fund’s highly liquid investment minimum assets that have been segregated or pledged in connection with certain derivatives transactions. Item C.7 requires funds to report the liquidity classification for each investment across the four buckets. For any investments with multiple liquidity classifications, item C.7 asks that a fund report the percentage attributable to each bucket.

8. Rule 30b1–10 and Form N–LIQUID require a fund to notify the Commission when the fund’s level of “illiquid investments” that are assets exceeds 15% of its net assets or when its “highly liquid investments” fall below its HLIM.<sup>13</sup>

#### *Applicants’ Liquidity Risk Framework*

9. Applicants’ Liquidity Risk Framework classifies portfolio investments held by a Covered Fund, including any assets pledged to derivatives transactions, among the following five liquidity categories rather than the four buckets specified in rule 22e–4:<sup>14</sup>

*Category 1*—Able to be sold in one trading day;

*Category 2*—able to be sold between two and three trading days;

*Category 3*—able to be sold between four and ten trading days;

*Category 4*—able to be sold between eleven and twenty trading days; and

<sup>13</sup> On October 28, 2020, the Commission adopted rule 18f–4 under the Act with respect to the use of derivatives by registered investment companies. See *Use of Derivatives by Registered Investment Companies and Business Development Companies*, Investment Company Act Release No. 34078 (Oct. 28, 2020), which, in part, amends and re-titles Form N–LIQUID as Form N–RN, amends rule 22e–4 to remove references to assets “segregated to cover” derivatives transactions, and adopts conforming amendments to Form N–PORT. Accordingly, the Applicants seek relief from rules 22e–4(b)(1)(ii)(C) and (b)(1)(iii)(B) and item B.8 of Form N–PORT as currently in effect and as amended, upon the date of the Covered Funds’ compliance with rule 18f–4. In addition, all references herein to Form N–LIQUID shall be deemed to be to Form N–RN once the re-titling of the Form is effective.

<sup>14</sup> As required by rule 22e–4(b)(1)(ii), the Amended Liquidity Program would use information obtained after reasonable inquiry and taking into account relevant market, trading, and investment-specific considerations when classifying investments. Applicants are not seeking an exemption from this requirement.

*Category 5*—able to be sold in more than twenty trading days.

This classification generally would be based on the ability to *sell the full position size* of each investment or transaction in current market conditions with no significant change to the market value of the investment (“Full Position Size Approach”).<sup>15</sup> The Liquidity Risk Framework uses days-to-sale (rather than rule 22e–4’s “days-to-cash” approach) and applies an expected settlement cycle.<sup>16</sup> The Liquidity Risk Framework also uses a quantitative modeling approach that seeks to identify any potential estimated liquidity mismatches between a Covered Fund’s assets and the potential size of a Covered Fund’s anticipated redemptions.<sup>17</sup> Each portfolio investment is then distributed among the five liquidity categories, as applicable.

10. The positions in the five categories would be converted into the

<sup>15</sup> JPM believes that use of the Full Position Size Approach creates a more useful view of fund liquidity and potentially lends itself to more conservative portfolio risk management overall because it does not result in a single holding, which may need to be sold over time, being classified in a single liquidity category. This approach reflects the fact that a fund may not be able to sell an entire position at once. The approach of allocating a single holding across multiple liquidity categories is generally consistent with SEC guidance for permissible methods of reporting on Form N–PORT. See *Investment Company Liquidity Disclosure*, Investment Company Act Release No. 33142 (June 28, 2018) at 25.

<sup>16</sup> See *Investment Company Liquidity Risk Management Programs*, Investment Company Act Release No. 32315 (Oct. 13, 2016) at 89–96. Rule 22e–4 generally requires classification based on the number of days a fund reasonably anticipates it would convert an investment to cash, without the conversion significantly changing the market value of the investment, which generally refers to the ability to sell the investment, with the sale settled. The Amended Liquidity Program uses days-to-sale and assumes a standard settlement cycle.

<sup>17</sup> The Amended Liquidity Program applies three Asset Side Liquidity constraints to each Covered Fund portfolio: A security specific assessment by position (“Bottoms Up Constraint”), a broader asset class market depth assessment (“Top Down Constraint”), and a pro-rata risk constraint, applicable to the most liquid 85% of a Covered Fund’s holdings (“Pro Rata Constraint”), that reflects the goal of meeting shareholder redemptions while seeking to maintain risk profile consistency in a Covered Fund’s portfolio. Application of the constraints seeks to provide a conservative estimate of daily portfolio liquidity.

The Amended Liquidity Program then applies Liability Side modeling which considers both historical redemption time periods as well as the potential for the largest two investors to redeem their investments.

four buckets to (i) comply with the HLIM requirements and illiquid investment limitations in rule 22e–4, (ii) comply with classification reporting on Form N–PORT, and (iii) determine whether a Form N–LIQUID filing will be required. To effect this conversion, JPMIM would apply an “overlay” across the five liquidity categories based on the RATS of the fund’s portfolio investments or asset classes (a “RATS Overlay”) implemented in compliance with rule 22e–4(b)(1)(ii)(B).<sup>18</sup> JPMIM would then apply a settlement period modifier to take into account the expected settlement period of the portfolio position. Finally, JPMIM would make certain adjustments to its framework, as described below, for investments segregated to cover, or pledged to satisfy margin requirements in connection with, certain derivatives transactions of the Covered Fund in compliance with rule 22e–4(b)(1)(ii)(C).

11. After applying the RATS Overlay and settlement period modifier, portfolio positions that are in Category 1 of JPMIM’s Liquidity Risk Framework, and that have an expected settlement period of T+3 or less, would be converted into rule 22e–4’s “highly liquid” bucket. Investments in Category 2 that have an expected settlement period of T+3 or less would be converted into the “moderately liquid” bucket of rule 22e–4. Any investments in either of JPMIM’s Categories 1 or 2 that have an expected settlement period of more than T+3 would be converted into the “less liquid” bucket. Finally, after applying the RATS Overlay and settlement period modifier, investments that are in JPMIM’s Categories 3, 4, and 5 would be converted into the “illiquid investments” bucket of rule 22e–4 because, in part, they make take more time to sell than the seven days established in rule 22e–4.

<sup>18</sup> Rule 22e–4(b)(1)(ii)(B) requires that “[i]n classifying and reviewing its portfolio investments or asset classes (as applicable), the fund must determine whether trading varying portions of a position in a particular portfolio investment or asset class, in sizes that the fund would reasonably anticipate trading, is reasonably expected to significantly affect its liquidity, and if so, the fund must take this determination into account when classifying the liquidity of that investment or asset class.”

Bucket	Rule 22e-4 four buckets <sup>19</sup>	Amended liquidity program converted buckets
Highly Liquid Investment; Rule 22e-4(a)(6).	Any cash held by a fund and any portfolio investment that the fund reasonably expects to be convertible into cash in current market conditions in three business days or less without the conversion to cash significantly changing the market value of the investment.	Any cash and any fund portfolio investment (1) that a fund's investment adviser reasonably expects could be sold in one trading day in current market conditions without causing a significant change in the market value of the investment and (2) that has an expected settlement period of T+3 or less.
Moderately Liquid Investment; Rule 22e-4(a)(12).	Any portfolio investment that the fund reasonably expects to be convertible into cash in current market conditions in more than three calendar days but in seven calendar days or less without the conversion to cash significantly changing the market value of the investment.	Any portfolio investment (1) that a fund's investment adviser reasonably expects could be sold in two to three trading days in current market conditions without significantly changing the market value of the investment and (2) that has an expected settlement period of T+3 or less.
Less Liquid Investment; Rule 22e-4(a)(10).	Any portfolio investment that the fund reasonably expects to be able to sell or dispose of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment but where the sale or disposition is reasonably expected to settle in more than seven calendar days.	Any portfolio investment that could be sold within three trading days without significantly changing the market value of the investment, but is determined to have an expected settlement period of longer than T+3. <sup>20</sup>
Illiquid Investment; Rule 22e-4(a)(8).	Any portfolio investment that the fund reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less, without the sale or disposition significantly changing the market value of the investment.	Any portfolio investment that a fund's investment adviser reasonably expects could not be sold within three trading days without the sale or disposition significantly changing the market value of the investment.

### III. Request for Exemptive Relief

12. Applicants request an order under section 6(c) of the Act for an exemption from the provisions of rule 22e-4 discussed below and the related reporting requirements on Forms N-PORT and N-LIQUID solely to the extent necessary to implement the Amended Liquidity Program.

#### Rule 22e-4 Exemptions

13. Applicants seek an exemption from rule 22e-4(b)(1)(ii) to permit Covered Fund holdings to be classified under the Amended Liquidity Program across the five liquidity categories, as described above, for purposes of assessing and monitoring each Covered Fund's liquidity risk. Applicants are not seeking an exemption from that section's requirement to use information obtained after reasonable inquiry and taking into account relevant market, trading, and investment specific considerations when classifying investments.

14. Applicants also seek an exemption to use the Amended Liquidity Program's modified definitions of the rule 22e-4 four buckets in order to comply with the HLIM requirements and illiquid

investment limitations in rule 22e-4. Using the modified definitions would permit the Applicants to convert the five liquidity categories into the four buckets.

15. Rule 22e-4 requires funds that do not primarily hold assets that are highly liquid investments to determine a minimum HLIM level. Applicants seek an exemption to use the modified definitions to assess if a Covered Fund is required to maintain an HLIM, to determine the amount of any such HLIM, and to assess ongoing compliance with the requirement.

16. Rule 22e-4 currently requires a fund to exclude from its calculations of HLIM the percentage of fund assets that are highly liquid investments that it has segregated to cover, or pledged to satisfy margin requirements in connection with, derivatives transactions that the fund has classified as moderately liquid, less liquid, and illiquid investments.<sup>21</sup> For purposes of complying with this requirement, Applicants seek an exemption to permit a Covered Fund to exclude Category 1 assets that are segregated to cover, or pledged to satisfy margin requirements in connection with, derivatives transactions that are not classified within Category 1; for purposes of complying with rule 22e-4(b)(1)(iii)(B), as amended, Category 1 assets that are pledged as margin or collateral in connection with derivatives transactions that are not classified within Category 1 will be excluded from the Covered Fund's calculation of whether the Covered Fund primarily holds assets that are highly liquid investments.

17. Rule 22e-4 currently also requires a fund to identify the percentage of the fund's highly liquid investments that it has segregated to cover, or pledged to satisfy margin requirements in connection with, derivatives transactions classified as moderately liquid, less liquid, and illiquid.<sup>22</sup> For purposes of determining this percentage, Applicants seek an exemption to permit the Covered Funds to identify Category 1 assets that are segregated to cover, or pledged to satisfy margin requirements in connection with, derivatives transactions that are classified as moderately liquid, less liquid, and illiquid under the modified definitions; for purposes of compliance with rule 22e-4(b)(1)(ii)(C), as amended, the Applicants seek an exemption to permit the Covered Funds to identify Category 1 assets under the Liquidity Risk Framework that are pledged as margin or collateral in connection with, derivatives transactions that are assigned to other categories under the Liquidity Risk Framework.

18. Rule 22e-4 prohibits a fund from acquiring any illiquid investment if, immediately after such acquisition, the fund would have invested more than 15% of its net assets in illiquid investments that are assets.<sup>23</sup> Further, the rule imposes certain requirements in the event a fund holds more than 15% of its net assets in illiquid investments. For purposes of complying with these requirements, Applicants seek an exemption to permit the Covered Funds to use the modified definition of illiquid investments.

<sup>19</sup> See *supra* note 9. As required by rule 22e-4(b)(1)(ii), the Amended Liquidity Program would use information obtained after reasonable inquiry and taking into account relevant market, trading, and investment-specific considerations when classifying investments. The Applicants are not seeking an exemption from this requirement of Rule 22e-4(b)(1)(ii).

<sup>20</sup> This category will include holdings that fall within Category 1 or Category 2 and that are determined to have a standard settlement period of longer than T+3. This currently includes loan assignments and participations and certain emerging markets instruments and securities. See Application at note 14 and accompanying text.

<sup>21</sup> Rule 22e-4(b)(1)(iii)(B).

<sup>22</sup> Rule 22e-4(b)(1)(ii)(C).

<sup>23</sup> Rule 22e-4(b)(1)(iv).

### Reporting Exemptions

19. Applicants request an exemption from items B.7, B.8 and C.7 of Form N-PORT<sup>24</sup> in order for the Covered Funds to adopt and implement the Amended Liquidity Program. Specifically, they seek relief in order for each Covered Fund to use the modified definitions under the Amended Liquidity Program for purposes of reporting. Each Covered Fund that implements the Amended Liquidity Program would include an explanatory note with respect to the information reported in response to these items.<sup>25</sup> The Covered Funds would otherwise file Form N-PORT as required under rule 30b1-9 under the Act.

20. Applicants request an exemption from Parts B through D of Form N-LIQUID in order for the Covered Funds to use the modified definitions for purposes of determining whether a filing on Form N-LIQUID is required. A Covered Fund would use the modified definitions of “highly liquid investment” and “illiquid investment” described in the chart above. Each Covered Fund that implements the Amended Liquidity Program would include appropriate explanatory notes in any Form N-LIQUID filing describing the classification methodology used to determine “highly liquid investments” or “illiquid investments,” as applicable, and any related assumptions. The Covered Funds would otherwise file Form N-LIQUID as required under rule 30b1-10 under the Act.

### IV. Arguments in Support of the Requested Relief

21. Applicants maintain that the Amended Liquidity Program is designed to effectively accomplish the SEC’s

<sup>24</sup> Item B.7 requires a fund to report, as applicable, its HLIM, the number of days the fund was below such HLIM, and any changes to the HLIM during the reporting period. Item B.8 requires disclosure of the percentage of a fund’s highly liquid investment minimum assets that have been segregated or pledged in connection with certain derivatives transactions. For purposes of Item B.8 of Form N-PORT as amended, each Covered Fund that implements the Amended Liquidity Program and engages in derivatives transactions will provide the percentage of the Covered Fund’s holdings that are “highly liquid investments” (as determined pursuant to the Amended Liquidity Program) that have been pledged as margin or collateral in connection with derivatives transactions that are “moderately liquid investments,” “less liquid investments,” or “illiquid investments” (as such classifications are determined pursuant to the Amended Liquidity Program, as described above, for purposes of Form N-PORT reporting).

Item C.7 requires funds to report the liquidity classification for each investment across the four buckets.

<sup>25</sup> For reporting on Form N-PORT, the funds would include an explanatory note regarding their modified reporting as described in condition 1 of the application. See section IV. of this Notice.

primary goals for rule 22e-4, which are to reduce the risk that funds would be unable to meet redemption and other legal obligations, minimize dilution, and elevate the overall quality of liquidity risk management across the fund industry.

22. Applicants assert that investors would continue to benefit from the protections of rule 22e-4 to the extent that the Amended Liquidity Program incorporates elements of the Existing 22e-4 Program. Applicants note that the use of the five liquidity categories results in a quantitative breakdown of Covered Fund liquidity that JPM believes meets the general public policy requirements of rule 22e-4, while providing JPM with detailed information specific to its analytical purpose. Applicants assert that the Amended Liquidity Program, which would permit an assessment of a Covered Fund’s liquidity profile that is no less robust than the assessment produced under the Existing 22e-4 Program, creates a more useful view of fund liquidity and potentially lends itself to more conservative portfolio risk management overall.<sup>26</sup> Absent the requested relief, JPM would continue to maintain a separate classification methodology for the Covered Funds solely to the meet the requirements in rule 22e-4 discussed above and related reporting requirements. The Applicants would thereby continue to incur significant costs and administrative burdens through the maintenance of dual liquidity classification programs, as well as those associated with satisfying the HLIM and margin requirements specified in rule 22e-4 and the related reporting requirements.

23. Applicants maintain that the use of modified definitions of “highly liquid investment” and “illiquid investment” for purposes of the Amended Liquidity Program should result in a Covered Fund holding a substantially similar percentage of “illiquid investments” and “highly liquid investments” as would be the case using the current definitions under rule 22e-4. Any differences would be limited and would primarily relate to the use of different vendors and data, as well as the Amended Liquidity Program’s spreading holdings across multiple categories (as part of the Full Position Size Approach). JPM believes that the use of these

<sup>26</sup> As Applicants note, we have stated that funds that believe they would have to maintain dual liquidity classification programs as part of their liquidity risk management may choose to seek an exemption from the Commission from the classification requirements of rule 22e-4 if they believe that their existing systems would effectively accomplish the Commission’s stated goals.

modified definitions under the Amended Liquidity Program will not adversely impact the likelihood that any Covered Fund will be able to meet redemptions or increase the risk that the interests of remaining shareholders will be significantly diluted or that remaining shareholders will be disproportionately exposed to illiquid investments.

24. Applicants state that the Amended Liquidity Program would provide investors with at least the same level of disclosure that they receive under the Existing 22e-4 Program to enable investors to understand the Amended Liquidity Program and its effect on the liquidity risk assessment of a Covered Fund’s investments. Moreover, each Covered Fund would continue to provide appropriate disclosure in its annual or semi-annual shareholder reports regarding the operation and effectiveness of its liquidity risk management program (and, where applicable, would address any liquidity events that materially affected fund performance, as required by Form N-1A).

25. Applicants assert that the SEC and its staff will receive information, through the Covered Funds’ public disclosures and reporting on Form N-PORT and, where applicable, Form N-LIQUID, necessary to assess the liquidity profiles of the Covered Funds, monitor the Covered Funds’ compliance with the Amended Liquidity Program, and compare the liquidity risk management practices of the Covered Funds with those of other funds in the industry.

26. Applicants believe that the use of the Amended Liquidity Program’s classification methodology would result in a similar level of transparency that will not adversely affect the SEC’s ability to understand and monitor a Covered Fund’s liquidity profile or conduct industry-wide surveillance.

27. Based on the foregoing, Applicants submit that the requested relief meets the standards for relief under section 6(c) of the Act.

### VI. Conditions

Applicants agree that any order granting the requested relief will be subject to the following conditions:

1. Each Covered Fund will include an explanatory note with respect to the information reported in response to Items B.7, B.8 and C.7 of Form N-PORT substantively to the following effect:

“As permitted by an SEC exemptive order, the Funds use liquidity definitions and classification methodologies that differ from Rule 22e-4 requirements. Results shown on

this Form could be different if the Funds did not rely on the exemptive order.”

2. Each Covered Fund will include explanatory notes in any Form N-LIQUID filing describing the classification methodology used to determine “highly liquid investments” or “illiquid investments,” as applicable, and any related assumptions.

3. The annual report provided to the board of trustees of each Covered Fund that implements the Amended Liquidity Program pursuant to rule 22e-4(b)(2)(iii) will include a certification with respect to compliance with the terms of the Order.

4. The Covered Funds that implement the Amended Liquidity Program will maintain records for a period of five years (the first two years in an easily accessible place) showing each instrument’s classification under the Liquidity Risk Framework’s five categories and each instrument’s classification after it has been converted to four categories.

By the Commission.

**Eduardo A. Aleman,**  
*Deputy Secretary.*

[FR Doc. 2020–28764 Filed 12–28–20; 8:45 am]

**BILLING CODE 8011–01–P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–90768; File No. SR–NYSE–2019–67]

### Self-Regulatory Organizations; New York Stock Exchange LLC; Order Setting Aside Action by Delegated Authority and Approving a Proposed Rule Change, as Modified by Amendment No. 2, To Amend Chapter One of the Listed Company Manual To Modify the Provisions Relating to Direct Listings

December 22, 2020.

#### I. Introduction

On December 11, 2019, New York Stock Exchange LLC (“NYSE” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”) <sup>1</sup> and Rule 19b-4 thereunder, <sup>2</sup> a proposed rule change to amend Chapter One of the Listed Company Manual (“Manual”) to modify the provisions relating to direct listings. <sup>3</sup> Pursuant to the proposal,

NYSE would allow an issuer, at the time of an initial listing on the Exchange, to conduct a primary offering as part of a direct listing without conducting a firm commitment underwritten offering.

On August 26, 2020, the Commission, acting through authority delegated to the Division of Trading and Markets (“Division”), <sup>4</sup> approved the proposed rule change, as modified by Amendment No. 2 (“Approval Order”). <sup>5</sup> On September 8, 2020, the Council of Institutional Investors (“CII” or “Petitioner”) filed a petition for review of the Approval Order (“Petition for Review”). Pursuant to Commission Rule of Practice 431(e), the Approval Order was stayed by the filing with the Commission of a notice of intention to petition for review. <sup>6</sup> On September 25, 2020, the Commission issued a scheduling order, pursuant to Commission Rule of Practice 431, granting the Petition for Review of the Approval Order and providing until October 16, 2020, for any party or other person to file a written statement in support of, or in opposition to, the Approval Order. <sup>7</sup> On October 16, 2020,

which amended and replaced the proposed rule change in its entirety. The proposed rule change, as modified by Amendment No. 1, was published for comment in the **Federal Register** on December 30, 2019. *See* Exchange Act Release No. 87821 (Dec. 20, 2019), 84 FR 72065. On February 13, 2020, pursuant to Section 19(b)(2) of the Exchange Act, the Commission designated a longer period within which to either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change. *See* Exchange Act Release No. 88190, 85 FR 9891 (Feb. 20, 2020). On March 26, 2020, the Commission instituted proceedings to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1. *See* Exchange Act Release No. 88485, 85 FR 18292 (Apr. 1, 2020) (“OIP”). On June 22, 2020, the Exchange filed Amendment No. 2 to the proposed rule change, which superseded the proposed rule change as modified by Amendment No. 1 (“Amendment No. 2”). On June 24, 2020, the Commission extended the time period for approving or disapproving the proposal to August 26, 2020. *See* Exchange Act Release No. 89147, 85 FR 39226 (June 30, 2020). The proposed rule change, as modified by Amendment No. 2, was published for comment in the **Federal Register** on June 30, 2020. *See* Exchange Act Release No. 89148 (June 24, 2020), 85 FR 39246 (“Notice”).

<sup>4</sup> 17 CFR 200.30–3(a)(12).

<sup>5</sup> *See* Exchange Act Release No. 89684, 85 FR 54454 (Sept. 1, 2020).

<sup>6</sup> 17 CFR 201.431(e). *See* Letter to John Carey, Senior Director, NYSE Group Inc. (Aug. 31, 2020) (providing notice of receipt of notice of intention for review of delegated action and stay of order), available at <https://www.sec.gov/rules/sro/nyse/2020/34-89684-carey-letter.pdf>. On September 4, 2020, NYSE filed a motion for the Commission to lift the automatic stay of the Approval Order and a brief in support of its motion to lift the stay. On September 8, 2020, CII filed a brief in opposition to NYSE’s motion to lift the automatic stay. On September 11, 2020, NYSE filed a reply brief in support of its motion to lift the stay.

<sup>7</sup> *See* Exchange Act Release No. 90001, 85 FR 61793 (Sept. 30, 2020). In the scheduling order, the

NYSE submitted a written statement in support of the Approval Order. <sup>8</sup>

The Commission has conducted a de novo review of NYSE’s proposal, giving careful consideration to the entire record—including NYSE’s amended proposal, the Petition for Review, and all comments and statements submitted—to determine whether the proposal is consistent with the Exchange Act and the rules and regulations issued thereunder. Under Section 19b(2)(C) of the Exchange Act, the Commission must approve the proposed rule change of a self-regulatory organization (“SRO”) if the Commission finds that the proposed rule change is consistent with the Exchange Act and the applicable rules and regulations thereunder; if it does not make such a finding, the Commission must disapprove the proposed rule change. <sup>9</sup> Additionally, under Rule 700(b)(3) of the Commission’s Rules of Practice, the “burden to demonstrate that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder . . . is on the self-regulatory organization that proposed the rule change.” <sup>10</sup> Further, “the description of a proposed rule change, its purpose and operation, its effect, and a legal analysis of its consistency with applicable requirements must all be sufficiently detailed and specific to support an affirmative Commission finding.” <sup>11</sup> Finally, “[a]ny failure of the self-regulatory organization to provide the information elicited by Form 19b-4 may result in the Commission not having a sufficient basis to make an affirmative finding that a proposed rule change is consistent with the Exchange Act and the rules and regulations issued thereunder that are applicable to the self-regulatory organization.” <sup>12</sup>

For the reasons discussed herein, the Commission has determined that NYSE has met its burden to show that the proposed rule change is consistent with the Exchange Act. We thus set aside the Approval Order and approve NYSE’s proposed rule change, as amended. Section 6(b)(5) of the Exchange Act requires that the rules of a national securities exchange be designed to

Commission also denied NYSE’s motion to lift the automatic stay of the Approval Order and ordered that the proposed rule change, as modified by Amendment No. 2, remain stayed.

<sup>8</sup> *See* The New York Stock Exchange LLC’s Statement in Support of Order Approving Proposed Rule Change (Oct. 16, 2020) (“NYSE Statement”).

<sup>9</sup> 15 U.S.C. 78s(b)(2)(C).

<sup>10</sup> 17 CFR 201.700(b)(3).

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> On December 13, 2019, the Exchange filed Amendment No. 1 to the proposed rule change,