KPMG

Regulatory Alert

Regulatory Insights for Financial Services

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Private Funds: SEC, CFTC Joint Proposal to Amend Form PF

KPMG insights: *Form PF reporting has shown that the private fund industry is evolving in terms of business practices, complexity of fund structures, and investment strategies and exposures. These changes have prompted the capital markets regulators to propose enhancements to the Form PF reporting requirements to better understand the scope of potential risk to the financial markets. Following proposed amendments to Form PF issued in January 2022 (see KPMG Regulatory Alert), the SEC and CFTC have now collaboratively proposed additional amendments to Form PF that look to expand upon reporting requirements especially for large hedge fund advisers. Key areas include investment exposures (including cryptocurrencies), open and large positions, and borrowing and financing arrangements. Volatility in the cryptocurrency markets has raised regulatory concerns, and the agencies note that digital assets is now a common investment strategy pursued by hedge funds.*

The SEC and CFTC jointly proposed amendments to Form PF that would expand the reporting requirements for certain SEC-registered investment advisers to private funds that are also registered with the CFTC as a commodity pool operator or commodity trading adviser. The agencies state this joint proposal is intended to "enhance the FSOC's ability to monitor systemic risk" and "bolster the oversight of private fund advisers." Highlighted changes, which are outlined below, address:

1. Enhanced reporting by large hedge fund advisers on qualifying hedge funds
2. Enhanced reporting of basic information about advisers and the private funds they advise
3. Enhanced reporting concerning hedge funds
4. Amended reporting for complex structures
5. Elimination of aggregate reporting for large hedge fund advisers

1. **Enhanced reporting by large hedge fund advisers on qualifying hedge funds.** The proposed changes aim to enhance how large hedge fund advisers report on "qualifying hedge funds," which would be defined by the SEC as those with a net asset value of at least $500 million, including:

   — Investment exposures
   — Borrowing and counterparty exposure
   — Market factor effects
   — Currency exposure reporting
   — Turnover
   — Country and industry exposure
   — Central clearing counterparty reporting
   — Risk metrics
   — Investment performance (by strategy, portfolio correlation, portfolio liquidity, and financing liquidity)

2. **Enhanced reporting basic information about advisers and the private funds they advise.** Advisers would be required to provide additional basic information about themselves and their private funds including:

   — Identifying information

- — Assets under management
- — Withdrawal and redemption rights
- — Gross asset value and net asset value
- — Inflows and outflows
- — Base currency
- — Borrowings and types of creditors
- — Fair value hierarchy
- — Beneficial ownership
- — Fund performance

3. **Enhanced reporting concerning hedge funds.** Proposed amendments include removing duplicative questions and requiring additional information on hedge fund investment strategies, counterparty exposures, and trading and clearing mechanisms.

4. **Amended reporting for complex structures.** Advisers would generally be required by the proposed amendments to separately report each component fund in complex fund structures, such as master-feeder arrangements and parallel fund structures.

5. **Elimination of aggregate reporting for large hedge fund advisers.** Although large hedge funds are currently required by Form PF to report certain aggregated information about the hedge funds they advise, the SEC stated that "such information can obscure the data about hedge funds, including by masking the directional exposures of individual funds." As such, the agencies propose to eliminate the aggregate reporting requirement.

Digital assets. The agencies' proposal would also establish a new asset class for "digital assets," defined as "an asset that is issued and/or transferred using distributed ledger or blockchain technology ('distributed ledger technology'), including, but not limited to, so-called 'virtual currencies,' 'coins,' and 'tokens.'" Further, the definition of "cash and cash equivalents" would be amended to clarify that digital assets are distinct from this asset category. The agencies separately propose to add "digital assets" as a category for funds' investment strategy reporting.

Comment period. Public comments on the proposed rules and a number of alternatives, including whether certain possible changes to the proposal should apply to Form ADV, should be submitted on or before 30 days after publication in the Federal Register or October 11, 2022, whichever is later.

SEC Form PF Proposal. Earlier this year, the SEC proposed amendments to "SEC-only" sections of Form PF (see KPMG Regulatory Alert, here). Broadly, these amendments would:

- — Introduce a new reporting requirement for large hedge fund advisers and all private equity advisers that would be triggered by the occurrence of certain key events.
- — Decrease the threshold for reporting as a large private equity adviser from $2 billion to $1.5 billion in private equity fund assets under management.
- — Require large private equity fund advisers to provide additional information regarding the private equity funds they advise.
- — Revise how large liquidity fund advisers report information about the liquidity funds they advise.

Relevant KPMG Thought Leadership:

- — *KPMG Regulatory Alert: Private Funds: SEC proposed amendments to Form PF*
- — *KPMG Regulatory Alert: SEC near-term 2022 regulatory agenda*

For additional information, please contact Amy Matsuo, Larry Godin, or Mark McKeever.

Contact the author:

Amy Matsuo
Principal and Leader
Regulatory and ESG Insights
amatsuo@kpmg.com

kpmg.com/socialmedia

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