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SEC Proposes to Reduce Equity Ownership Transparency

Proposal Would Exempt 4,500 Investment Managers From 13F Disclosure

On July 10, the U.S. Securities and Exchange Commission voted to propose amendments to its Form 13F disclosure rules, which would dramatically reduce the number of investment managers that disclose their holdings after each quarter. Under the proposal, the minimum 13F filing threshold would increase by 35 times -- from $100 million in U.S. equities under management to $3.5 billion. As a result, 4,500 investment managers overseeing $2.3 trillion in assets would no longer have to provide disclosure.

The SEC's proposal does not include any of the 13F modernization reforms that NIRI and other corporate organizations have called for to improve ownership transparency, such as reducing the reporting period from 45 days to 15 days, changing the reporting frequency to monthly, or requiring the disclosure of short positions. Many companies and IR teams rely heavily on 13F data to know which institutions are increasing or decreasing their positions, to allocate scarce C-suite time among investors, and to detect activist funds that may be plotting a proxy contest.

Commissioner Allison Herren Lee voted against the 13F proposal, noting that the SEC had not fully considered the impact on public companies. In her dissenting statement, she prominently cited a 2019 NIRI briefing paper that called for more 13F transparency. "The proposal does not address this concern, discuss potentially reduced shareholder engagement, or balance the interests of issuers, and particularly small issuers, against the population of institutional investment managers affected by this proposal, i.e., those with discretion over between $100 million and $3.5 billion," Lee said.

"This proposal is a step backward for transparency and investor engagement," said NIRI President and CEO Gary A. LaBranche, FASAE, CAE. "NIRI plans to oppose this ill-advised proposal, and we encourage issuers, NIRI chapters, and other corporate groups to share their concerns with the SEC."

In an April 2020 survey of NIRI members, more than 94 percent of respondents agreed that the 13F rules should be modernized and expanded to include short positions. This strong approval for 13F reform is similar to the support expressed by members in NIRI surveys in 2016 and 2018.

NIRI plans to submit a comment letter that will urge the SEC to adopt meaningful reforms that would improve ownership transparency and foster better issuer-investor engagement. NIRI will prepare comment letter templates and assist issuers and chapters that wish to share their views with the SEC and/or members of Congress. Comments on the SEC's proposal are due in mid-September; it remains unclear when the Commission might vote to finalize any changes to 13F.

Resources

- SEC Proposes Amendments to Update Form 13F for Institutional Investment Managers; Amend Reporting Threshold to Reflect Today's Equities Markets, July 10, 2020.
- Commissioner Allison Herren Lee, "Statement on the Proposal to Substantially Reduce 13F Reporting," July 10, 2020.
- NIRI, "The Case for 13F Reform," September 2019.
- NIRI, NYSE, and Society for Corporate Governance, "Petition for Rulemaking Under Section 13(f) of the Securities Exchange Act of 1934," Petition 4-659, February 1, 2013.

About the National Investor Relations Institute
Founded in 1969, NIRI is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts and other financial community constituents. NIRI is the largest professional investor relations association in the world with more than 3,000 members representing 1,600 publicly held companies and $9 trillion in stock market capitalization.