

FREQUENTLY ASKED QUESTIONS ABOUT CLOSED-END FUNDS

Most investors are familiar with mutual funds, or “open-end” registered investment companies. Closed-end funds, however, may be less familiar to investors. Here we address some of the differences between open-end and closed-end funds and answer frequently asked questions regarding the use and structure of closed-end funds.

Closed-End Funds

What is a closed-end fund?

A closed-end fund is a management investment company. Unlike an open-end mutual fund, however, closed-end funds do not continuously offer their shares at a price based upon the current net asset value (“NAV”). Rather, closed-end funds typically issue a fixed number of shares that are listed on a stock exchange. Shares of a closed-end fund trade at market price (which may be at a discount or premium to NAV) and they are not routinely redeemable directly by the fund.¹

¹ Certain types of closed-end funds, including business development companies (“BDCs”) and interval funds, are beyond the scope of this article. For answers to common questions about BDCs, see *Frequently Asked Questions About Business Development Companies*, at

Closed-end funds are registered under the Investment Company Act of 1940, as amended (the “1940 Act”) and their shares are typically registered under the Securities Act of 1933, as amended (the “Securities Act”). Trading in listed shares of a closed-end fund is subject to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as well as the listing standards of the exchange.

What are the advantages of closed-end funds?

Closed-end funds can be attractive investments for several reasons.

- A publicly-traded closed-end fund raises a fixed amount of capital in a public offering and its shares are not redeemable directly by the fund, so it is not subject to the fluctuations in asset size that can result from day-to-day purchase and redemption activity. As a result, the fund’s investment adviser manages a more stable portfolio.

<http://www.mofo.com/files/Uploads/Images/FAQ-Business-Development-Companies.pdf>. Interval funds are subject to Rule 23c-3 under the 1940 Act and, unlike most closed-end funds, adopt a policy of periodic redemption of shares and do not list their shares on an exchange. For answers to common questions about interval funds, see *Frequently Asked Questions About Interval Funds*, at <https://media2.mofo.com/documents/faqs-interval-funds.pdf>.

- Unlike open-end funds, closed-end funds do not need to maintain liquidity to meet daily redemptions. Thus, they have more flexibility to invest in less liquid securities.
- Closed-end funds have more regulatory flexibility than open-end funds to leverage their investments. For example, they may issue preferred shares or debt, which open-end funds may not do. (For more information on the use and structure of leverage, see “*Can closed-end funds use leverage?*” below.)

How does a closed-end fund register with the SEC?

Initial Registration

Like any registered investment company, a closed-end fund must file a notification of registration on Form N-8A. If the fund intends to publicly offer its shares, it must then prepare and file a registration statement on Form N-2 within three months after filing the notification.² Typically, however, funds file a registration statement on Form N-2 contemporaneously with Form N-8A.

Form N-2 is a three-part registration statement consisting of a prospectus, a statement of additional information (“SAI”) and certain other information.

- The prospectus is designed to provide shareholders with essential information about the fund and should be written in clear, concise language (*i.e.*, plain English).
- The SAI is designed to provide shareholders with additional, more detailed information about a fund, its management and service

² Rule 8b-5 provides that if a fund’s fiscal year ends within the three-month period, the fund may file its Form N-2 within three months of that fiscal year’s end.

providers, and its policies. The SAI is not delivered to shareholders but must be available on request for free.

- Other information included in the registration statement includes corporate organizational documents and certain contracts and compliance policies.

Registration with the SEC subjects a fund to certain other filing requirements (see “Open-End and Closed-End Funds at a Glance” at the end of these Frequently Asked Questions).

Post-Effective Amendments to Registration Statements

Closed-end funds are not required to update their registration statements annually. From time to time, however, closed-end funds must update their registration statements by filing a post-effective amendment as required by the rules under the Securities Act. (For more information on the need for closed-end funds to update their registration statement, see, “*Shelf Registration Statements*” below.) These rules require the SEC to review and declare effective any post-effective amendments, which can delay a fund’s attempt to raise additional capital. (By contrast, the SEC’s rules allow open-end funds and interval funds to file post-effective amendments that become immediately effective, provided that they contain only updated financial information or certain other non-material changes.)³

Shelf Registration Statements

The SEC’s Staff has granted relief allowing closed-end funds to file a post-effective amendment to Form N-2 to

³ Interval funds may rely on Rule 486(b) and open-end funds may rely on Rule 485(b), each of which enables a registrant to file an immediately effective post-effective amendment primarily for the purposes of updating financial information or making other non-material changes.

effect a shelf registration statement for a delayed and continuous offering of shares.⁴ This relief, however, did not allow post-effective amendments to Form N-2 to become effective automatically upon filing.

Subsequently, the Staff addressed the issue of automatic effectiveness of post-effective amendments to Form N-2 on a case-by-case basis. In these individual “no-action” letters, the Staff said that it would not recommend enforcement action if certain closed-end funds relied on Rule 486(b) under the Securities Act to file immediately effective post-effective amendments to their Form N-2 registration statements to bring financial statements up to date or make other non-material changes.⁵ The Staff has granted several of these no-action requests under substantially similar circumstances. However, each letter specifically states that other registrants may not rely on the relief. Thus, a closed-end fund that wants to maintain a continuously effective shelf registration statement and does not want to incur the additional time, and possibly expense, of waiting for the Staff to review and declare effective amendments to its Form N-2 registration statement, may want to consider seeking similar no-action relief.

What are the requirements for listing shares of a closed-end fund?

Closed-end funds that list their shares on a stock exchange are subject to the listing requirements of the relevant exchange. As described in more detail below,

⁴ See, e.g., *Pilgrim America Prime Rate Trust* (pub. avail. May 1, 1998); *Nuveen Virginia Premium Income Municipal Fund* (pub. avail. Oct. 6, 2006). The SEC’s Division of Investment Management generally allows third parties to rely on no-action letters if their facts and circumstances are substantially similar to those described in the previously granted no-action letter.

⁵ See, e.g., *Aberdeen Asia-Pacific Income Fund, Inc.* (pub. avail. June 26, 2013); *Credit Suisse High Yield Bond Fund and Credit Suisse Asset Management Income Fund, Inc.* (pub. avail. June 26, 2013); *Eaton Vance, et al.* (pub. avail. June 26, 2013).

these requirements can include corporate governance requirements (e.g., audit committee independence and specific contents of the audit committee charter), requirements for annual shareholder meetings, and certain required reporting. In the case of a listing on the NYSE, the chief executive officer of a listed closed-end fund must annually certify to the NYSE that he or she is not aware of any violation by the fund of NYSE listing standards.

A listed closed-end fund is subject to the reporting requirements of Section 16 of the Exchange Act with respect to holdings of fund shares by certain insiders, such as directors and certain executive employees. “Insiders” must report their ownership at the inception of the fund and at least annually thereafter. Section 16 also imposes certain trading restrictions on insiders. For example, insiders of a closed-end fund cannot benefit from a sale and purchase (or purchase and sale) of fund shares made within six months of each other. Insiders are required to disgorge any benefit of these “short-swing” transactions.

Why does a fund trade at a premium or a discount?

When shares of closed-end funds trade on a stock exchange, their price will fluctuate like those of other publicly traded stocks. That is, shares usually trade at a market price that is higher (at a premium) or lower (at a discount) than a fund’s NAV.

Many factors may determine whether a fund trades at a premium or a discount to its NAV. Sometimes public perceptions can drive the market price of a closed-end fund up or down in relation to its NAV. For example, if the market perceives that a closed-end fund is one of the only ways to invest directly or indirectly in a category of scarce securities, market interest may drive the price

of shares to a premium. On the other hand, a closed-end fund with a large unrealized capital gain may trade at a discount if investors believe that they may be subject to tax if the fund realizes a capital gain.

How can a closed-end fund minimize a discount?

Historically, shares of closed-end funds tend to trade at a discount to NAV after they are initially offered to the public. Fund management may take steps to minimize the size of the discount. For example, a closed-end fund may make a tender offer for outstanding common shares and allow shareholders to redeem shares at NAV. Some closed-end funds have adopted a stock purchase plan pursuant to which the fund purchases shares on the open market to reduce the total number of common shares outstanding. A closed-end fund may also choose to address a discount by adopting a policy to convert to an interval fund or to an open-end fund.⁶ (See “*Can a closed-end fund repurchase its shares?*” below.)

Can a closed-end fund repurchase its shares?

As previously noted, closed-end fund shares generally trade on the secondary market at a market price that may be at a premium or at a discount to a fund’s NAV. If shares trade at a discount, a closed-end fund may attempt to reduce the spread through a tender offer for its shares. A tender offer is subject to the rules under the Exchange Act and the rules of the exchange.

Closed-end funds may also decide to convert to “interval funds.” Rule 23c-3 under the 1940 Act

⁶ Irrespective of whether the board adopts such a policy, shareholders of a closed-end fund may propose to convert the fund to open-end status by obtaining approval by shareholders. Including such a proposal in a proxy statement is subject to the proxy rules under the Exchange Act and the provisions of the fund’s articles of organization and by-laws. Subject to SEC rules, management of a fund may exclude such a shareholder proposal if shareholders do not have the power to require inclusion under the laws of the state of organization.

provides that a closed-end fund can adopt a policy of repurchasing between five percent and twenty-five percent of its outstanding common stock at periodic intervals pursuant to repurchase offers made to all holders of common stock. The purchase price must be the fund’s NAV determined as of a specified date, which may be subject to a repurchase fee of up to two percent of the repurchase proceeds. A closed-end fund that wishes to periodically tender for its shares must adopt a fundamental policy, which may only be changed by a majority vote of the fund’s outstanding voting securities, which sets forth, among other things, the periodic intervals at which repurchases will be made.⁷

Can a closed-end fund raise capital through an at-the-market offering?

Yes. At-the-market offerings allow a closed-end fund to raise capital quickly by selling newly issued shares into the natural trading flow of the market, without having to announce the offering. As a result, shares “trickle” into the market without meaningfully affecting the market price of a fund’s shares. The distribution costs for at-the-market offerings are typically less than those for traditional follow-on offerings. Moreover, the absence of an issuer commitment to sell means that there will be no sales below acceptable share prices.

At-the-market offerings may raise issues, however, because Section 17(a) of the 1940 Act prohibits principal transactions with certain affiliated persons of a fund, including its principal underwriter. To the extent a distribution agent in an at-the-market offering is considered a “principal underwriter” during the entire

⁷ For answers to common questions about interval funds, see Frequently Asked Questions About Interval Funds, at <https://media2.mofo.com/documents/faqs-interval-funds.pdf>.

term of an at-the-market offering, the distribution agent may not be able to provide other services to the closed-end fund during the term of the program, absent an exemption from the prohibitions of Section 17. To avoid potential issues under Section 17(a), closed-end funds may wish to structure such a program to provide for agency-only transactions or structure an arrangement between the closed-end fund and the distribution agent in such a way to ensure that the distribution agent is not a “principal underwriter.”⁸

What types of investments are permissible for closed-end funds?

The board of directors of a closed-end fund is free to set the fund’s investment objectives and policies, subject to many of the same rules and restrictions regarding permissible investments as are applicable to mutual funds. Like all registered investment companies, a closed-end fund must disclose in its prospectus its investment objectives, its principal investment strategies and any restrictions on the types of investments it may make. It must also disclose whether its portfolio will be “diversified,” or “non-diversified” as required by Section 5(b)(1) of the 1940 Act. Because a closed-end fund doesn’t need to meet daily redemption requests, it may be easier for a closed-end fund to invest a non-diversified or concentrated portfolio.

The lack of daily redemptions also gives closed-end funds the flexibility to invest in securities that are relatively illiquid. These may include thinly traded securities, securities traded in countries with less developed exchange mechanisms or less liquid markets,

⁸ For more information about at-the-market offerings, see Frequently Asked Questions About At-the-Market Offerings, at <https://media2.mofo.com/documents/faqatthemarketofferings.pdf>.

municipal bonds that are not widely traded, or securities issued by small companies. Closed-end funds may also have exposure to private startup companies funded by venture capital.

The ability to invest in these types of securities, together with the ability to use leverage, means that closed-end funds may be more volatile and more risky than many open-end mutual funds.

Are closed-end funds subject to the same compliance restrictions as open-end mutual funds?

In general, closed-end funds are subject to the same rules and restrictions set forth in the 1940 Act that apply to all registered investment companies. Among other things, these include:

- *Affiliated transactions.* Section 17 of the 1940 Act prohibits an affiliated person, sponsor or distributor of a registered investment company, including a closed-end fund, from engaging in principal transactions with the fund. Such prohibited transactions generally include selling or buying any security or other property or borrowing from or loaning money to the fund. The SEC has adopted several rules that exempt funds from these prohibitions. These include Rule 17a-7 (governing cross-trades between affiliated funds), Rule 17a-8 (governing mergers involving affiliated funds) and Rule 17e-1 (governing the payment of “usual and customary” brokerage commissions to an affiliated broker).
- *Pricing and valuation.* Although the price at which the shares of a closed-end fund trade is determined by the secondary market, a closed-end fund nevertheless must

periodically calculate its NAV. Closed-end funds must comply with the requirements that apply to all registered investment funds including, among other things, the requirement to price portfolio securities for which market quotations are not readily available at fair value as determined in good faith by the closed-end fund's board of directors.

- *Code of Ethics.* Rule 17j-1 requires closed-end funds (other than those that invest solely in U.S. government securities, certain short-term securities or shares of open-end funds) and their investment advisers and distributors to adopt a code of ethics designed to prevent their access persons from engaging in fraudulent, deceptive or manipulative conduct. Among other things, the code of ethics must require certain "access persons" to periodically disclose their personal securities holdings and transactions and, in some cases, to pre-clear securities trades in their personal accounts.
- *Investments in Other Investment Companies.* Section 12(d)(1)(A) limits the ability of registered investment companies to invest in securities issued by other investment companies. Section 12(d)(1)(C) limits the ability of any investment company to purchase or otherwise acquire shares issued by a closed-end fund if, immediately after such purchase or acquisition, the acquiring investment company, together with other investment companies in its fund complex, own more than 10% of the total outstanding voting stock of the closed-end fund.

Can closed-end funds use leverage?

Section 18 of the 1940 Act effectively limits the amount of direct leverage in which an investment company can engage. This section limits a closed-end fund's issuance of an evidence of indebtedness, unless the fund has 300 percent asset coverage,⁹ and preferred stock, unless the fund has 200 percent asset coverage.¹⁰

Preferred Shares

As with preferred shares of any company, holders of preferred shares have priority over any other class of shares with respect to distribution of assets and payment of dividends. In addition, Section 18 provides that holders of preferred shares of a closed-end fund have the right to elect two directors of the fund at all times.¹¹

If a closed-end fund issues preferred shares, then any proposed plan of reorganization or any investment policy changes that require shareholder approval under Section 13 of the 1940 Act must be approved by a majority of the holders of preferred shares. Notwithstanding the limitation as to the number of classes of preferred stock that may be issued, a closed-end fund may offer more than one series of that class, as long as no series has priority over any other with respect to distribution of assets or payment of dividends.

⁹ In the case of debt securities, asset coverage is calculated as the ratio of the value of total fund assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of debt securities.

¹⁰ Asset coverage on preferred shares is the ratio of the value of the fund's total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of debt securities issued by a fund plus the aggregate of the involuntary liquidation preference of the preferred shares.

¹¹ Additionally, Rule 18(a)(2)(C) provides that holders of preferred shares may elect a majority of directors if, at any time, dividends on preferred shares remain unpaid for two years. Preferred shareholders will continue to have this right until all dividends in arrears are paid.

Debt Securities

If a closed-end fund has issued debt, then it must maintain the 300 percent asset coverage level in order to pay out dividends on common stock. If the fund proposes to pay out dividends on preferred stock, it must maintain an asset coverage level of at least 200 percent on any issued senior debt.

Section 18 provides an impetus to maintain a minimum asset coverage level on debt at all times: if a fund fails to maintain 100 percent asset coverage for 12 consecutive months, debt holders will be entitled to elect at least a majority of the members of the board of directors. If a fund fails to maintain 100 percent asset coverage for 24 consecutive months, an event of default shall be deemed to have occurred.¹²

Auction Rate Preferred Stock

Historically, some closed-end funds issued auction rate preferred stock ("ARPS"). The dividend rate on ARPS is determined by an auction managed by an independent third party. During the financial crisis, the auctions "failed," meaning that there were more buyers than sellers for the ARPS. While closed-end funds continued to pay ARPS-holders dividends at established rates determined by a pre-existing formula, they were unable to sell their shares because they became illiquid. Some closed-end funds redeemed, or repurchased, ARPS from their holders at par. When a fund repurchases ARPS, the cost of leverage to the fund may increase.

Other Forms of Leverage

Certain investment transactions, for example, reverse repurchase agreements, firm commitment agreements and standby commitment agreements, may involve a

¹² Rule 18(a)(1).

senior security, because a counterparty may have a future claim to the fund's assets that is superior to the rights of fund shareholders. The SEC has said that if a fund has "covered" its obligations under these types of transactions, the fund would not be deemed to have issued a senior security. A fund could "cover" the transaction by segregating liquid assets on its books that are sufficient to satisfy 100 percent of the fund's obligations under the transactions, or entering into transactions that offset the fund's obligations.

Closed-end funds may also use derivatives¹³ and similar portfolio techniques to create leverage, provided they comply with the requirements of Section 18 or the alternative requirement to cover assets with a segregated account. In general, these segregated accounts must be marked-to-market daily.

Closed-end funds may also invest in instruments that involve "implied" or "economic" leverage, provided those investments are consistent with their investment policies.

Some closed-end funds may establish credit lines directly with banks or bank syndicates. Others may form special purpose vehicles that issue commercial paper backed by a fund's note, which is in turn backed by the fund's assets or other sources of credit.

¹³ In December 2015, the SEC proposed Rule 18f-4 which, if adopted as proposed, would significantly affect the ability of a closed-end fund to use derivatives to create leverage and would require a closed-end fund to have assets available to meet its obligations arising from such transactions. In addition, closed-end funds that engage in more than a limited amount of derivatives transactions or that use complex derivatives would have to establish a derivatives risk management program. As of this writing, however, the rule is still in the proposal stage and subject to public comment and further review.

Do closed-end funds distribute income?

Closed-end funds pay out investment income in the form of dividends.¹⁴ In many cases, access to this income is attractive to income-seeking investors, so closed-end funds may adopt a managed distribution policy designed to provide routine (*e.g.*, quarterly) distributions and stable distribution amounts. Closed-end funds may also provide investors with the opportunity to reinvest distributions automatically through the operation of a dividend reinvestment plan.

Distributions of net investment income and net short-term capital gains realized by a fund are taxable to shareholders as ordinary income. Distributions of net capital gain (*i.e.*, the excess of net long-term capital gain over net short-term capital loss) are taxable as long-term capital gain, regardless of the length of time a shareholder owns the shares with respect to which such distributions are made. An additional 3.8 percent Medicare tax will be imposed on certain net investment income, including ordinary dividends and capital gain distributions, of certain U.S. shareholders for years beginning after December 31, 2012. Reinvestment of dividends will not change the tax treatment of dividends for shareholders.

How are closed-end funds taxed?

To avoid the imposition of federal tax at the fund level, a closed-end fund must elect to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). Among other things, Subchapter M imposes requirements related to the sources of income and

¹⁴ See "How are closed-end funds taxed?" Closed-end funds electing to be treated as regulated investment companies are required to distribute substantially all of their income and capital gains to shareholders annually.

diversification of portfolio holdings. Like open-end funds, a closed-end fund electing to be treated as a RIC under Subchapter M must distribute substantially all of its income and capital gains to shareholders annually.

If a fund does not qualify as a RIC or fails to satisfy the 90 percent distribution requirement in any taxable year, it would be taxed in the same manner as an ordinary corporation on its taxable income. In addition, distributions to shareholders would not be deductible in computing a fund's taxable income.

Are there special corporate governance requirements for a closed-end fund?

As noted previously, closed-end funds listed on an exchange must hold annual shareholder meetings, and must provide all shareholders of record with a proxy statement in advance of such meetings. In addition, rules of a listing exchange generally require prompt public disclosure of material information. From time to time, directors of a closed-end fund may be asked to consider extraordinary corporate transactions such as tender offers, additional public offerings of shares or conversion to open-end status.

Like all fund directors, directors of a closed-end fund are subject to corporate governance standards imposed by state law, the federal securities laws and regulations adopted under such laws. Thus, directors of a closed-end fund owe a fiduciary duty to the fund to act in a manner that protects its interests, taking into account the interests of all shareholders. Under Section 16 of the 1940 Act, a closed-end fund must elect a board of which at least 40 percent are not "interested persons" of the fund (as that term is defined in the 1940 Act). Practically speaking, however, most closed-end funds elect a board that consists of at least

75 percent non-interested directors in order to avail themselves of certain exemptive rules adopted under the 1940 Act.

The 1940 Act also requires the directors to carefully monitor the fund for conflicts of interest between the fund and its service providers. And, as with any registered investment company, investment advisory agreements are subject to annual board review and renewal under Section 15(c) of the 1940 Act.

Directors of a closed-end fund must oversee the fund's compliance with federal securities laws. They are required by Rule 38a-1 under the 1940 Act to approve, and annually review, written policies reasonably designed to prevent violation of the federal securities laws by the fund and certain of its service providers. The directors must also designate a Chief Compliance Officer, whose designation and compensation is subject to the approval of the fund's board and who can be removed from his role only with the approval of the fund board. Closed-end funds must adopt a code of ethics, anti-money laundering policies, trade allocation policies, whistleblower policies, proxy voting policies and policies related to handling shareholder complaints and maintaining full and fair disclosure, among others.

Do closed-end fund audit committees have special rules?

The board must appoint, from its members, an audit committee meeting the independence standards of the SEC and the exchange on which the fund is listed. The audit committee must have at least one "audit committee financial expert" as that term is defined in Item 407(d)(5)(ii) of Regulation S-K. This requirement is more stringent than the rule that applies to open-end funds, which must disclose whether or not their audit

committees have an audit committee financial expert, and if not, why not.

SEC rules require closed-end funds (as well as all public companies) to include in their annual report to shareholders a report from the audit committee stating that the committee:

- reviewed and discussed the financial statements with management;
- discussed the audit with the fund's independent auditors;
- confirmed that the auditors met independence standards; and
- recommended to the board of directors that the audited financial statements be included in the annual report to shareholders.

The fund must also disclose the names of each member of the audit committee, identify which member(s) of the audit committee are audit committee financial experts and state the fees paid to the independent auditors.

Are closed-end funds subject to the Sarbanes-Oxley Act?

Yes. Closed-end funds that are registered with the SEC are required to maintain internal controls over financial reporting as required by the Sarbanes-Oxley Act. They must also maintain and regularly evaluate the effectiveness of disclosure controls and procedures designed to ensure that information required in filings with the SEC is recorded, processed, summarized and reported in a timely manner.

Closed-end funds are required to file Form N-CSR, the certified shareholder report for registered investment companies, on a semi-annual basis. Form N-CSR must

be accompanied by a certification of a fund's principal executive officer and principal financial officer(s) that, among other things, they:

- are responsible for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting and that such procedures have been designed to ensure that material information regarding the fund is reported to such officers and to provide reasonable assurances regarding the reliability of financial reporting;
- have disclosed to the fund's auditors and its audit committee all significant deficiencies, any material weaknesses in the internal controls over financial reporting and any fraud involving employees with a significant role in the fund's internal controls over financial reporting.

Closed-end funds are currently required to file Form N-Q,¹⁵ the quarterly schedule of portfolio holdings, for their first and third fiscal quarters. The filing must include a certification of the fund's principal executive officer and principal financial officer(s) similar to that set forth above with respect to Form N-CSR.

¹⁵ In October 2016, the SEC adopted new rules and forms, and amended several existing forms, designed to modernize reporting by registered investment companies (See, "*Investment Company Reporting Modernization*", SEC Rel. No. 33-10231 (Oct. 13, 2016), available at <https://www.sec.gov/rules/final/2016/33-10231.pdf>) (the "Modernization Initiative"). Pursuant to the Modernization Initiative, Form N-Q will be retired and registered investment companies, including closed-end funds, will be required to report monthly information about portfolio holdings on new Form N-PORT. The new reporting requirements will be effective on June 1, 2018, for fund complexes with net assets of \$1 billion or more, and on June 1, 2019 for smaller fund groups.

Form N-SAR¹⁶ currently requires closed-end funds to disclose whether they have adopted a code of ethics for their senior financial officers as required by Section 406 of the Sarbanes-Oxley Act, and if not, why not. The code of ethics required by the Sarbanes-Oxley Act should address:

- resolution of actual or apparent conflicts of interest between personal and professional relationships;
- compliance with disclosure obligations; and
- compliance with other legal or regulatory obligations.

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¹⁶ Pursuant to the Modernization Initiative, Form N-SAR will be rescinded effective June 1, 2018. As of the same date, Funds will also be required to annually report certain census-type information in a structured data format on new Form N-CEN.

OPEN-END AND CLOSED-END FUNDS AT A GLANCE

	OPEN-END FUNDS	CLOSED-END FUNDS
Status under the 1940 Act	A management company that offers for sale or has outstanding any <i>redeemable security</i> of which it is the issuer.	Any management company other than an open-end company.
Pricing of Securities	A mutual fund issues or redeems its securities at a price based upon the net asset value (NAV) next computed after receipt of the order. Mutual funds must compute NAV at least once daily.	Closed-end fund shares trade in the secondary market and may be at a discount or premium to the fund's NAV.
Leverage Restrictions	<ul style="list-style-type: none"> • Senior debt is prohibited. • Senior equity (e.g., preferred stock) is prohibited. • Must maintain asset coverage of at least 300 percent or comply with alternative asset segregation requirements. 	<ul style="list-style-type: none"> • Can issue a senior debt security and a senior equity security, subject to asset coverage requirements. • Senior debt must maintain asset coverage of at least 300 percent or comply with alternative asset segregation requirements. • Senior equity must maintain asset coverage of 200 percent.
Limits on Illiquid Securities	The SEC has taken the position that open-end funds should not invest more than 15 percent of net assets in illiquid securities.	No limit.
Sale of Shares	Mutual funds continuously offer shares to the public at a price based upon the current NAV (may be subject to sales loads and other distribution fees).	<ul style="list-style-type: none"> • Closed-end funds sell a fixed number of shares in an IPO, after which investors generally buy shares of the fund in the secondary market (on an exchange or over the counter) at market price (subject to brokerage commission costs). • Closed-end funds may also issue shares in follow-on offerings and at-the-market offerings.
Redemption of Shares	Open-end funds must be ready, willing and able to redeem shares at the next-determined NAV (subject to redemption fees, if any).	<ul style="list-style-type: none"> • Investors generally may sell shares of closed-end funds in the secondary market on an exchange at the market price. • In order to reduce the discount at which shares may be trading, closed-end funds may adopt stock repurchase programs or periodically tender for shares (subject to rules under the Exchange Act and proxy requirements).

OPEN-END AND CLOSED-END FUNDS AT A GLANCE

	OPEN-END FUNDS	CLOSED-END FUNDS
Marketing	<ul style="list-style-type: none"> Typically, mutual funds offer shares through a registered broker-dealer that is a member of FINRA (broker-dealers may charge distribution-related fees to investors). Rule 12b-1 governs the use of fund assets primarily intended to finance distribution. 	<ul style="list-style-type: none"> Closed-end funds typically offer shares through a registered broker-dealer that is a member of FINRA in a single underwritten public offering. After the public offering, the shares of most closed-end funds are traded on exchanges.
Exchange Listing	Not applicable.	A closed-end fund must comply with rules of the exchange on which its shares are listed.
Disclosure	<ul style="list-style-type: none"> Registration statement on Form N-1A must be updated at least annually. No requirement for an annual shareholder meeting and proxy statement (unless required by state law where the fund is organized). Annual notice of securities sold pursuant to Rule 24f-2. Semi-annual shareholder reports and filing certified reports on Form N-CSR. Form N-PX annual report of proxy voting record. Form N-Q quarterly schedule of portfolio holdings (to be replaced by monthly filings of Form N-Port beginning in June 2018 (for complexes with net assets of \$1 billion or more) or June 2019 (for complexes with net assets of less than \$1 billion)). Semi-annual reports on Form N-SAR (to be replaced by Form N-CEN effective June 2018). 	<ul style="list-style-type: none"> Registration statement on Form N-2 is not required to be updated annually. Annual shareholder meeting and proxy statement, consistent with the rules of the listing exchange and the Exchange Act. Closed-end funds that wish to make a repurchase offer must file notice of the offer on Form N23c-3. Semi-annual shareholder reports and filing certified reports on Form N-CSR. Form N-PX annual report of proxy voting record. <ul style="list-style-type: none"> Form N-Q quarterly schedule of portfolio holdings (to be replaced by monthly filings of Form N-Port beginning in June 2018 (for complexes with net assets of \$1 billion or more) or June 2019 (for complexes with net assets of less than \$1 billion)). Semi-annual reports on Form N-SAR (to be replaced by Form N-CEN effective June 2018). Insider holding reports required by Section 16 of the Exchange Act (Forms 3, 4 and 5).