

## New Fund-of-Funds Rule for Registered Funds Under SEC Consideration

August 2019

The SEC is currently considering a rulemaking proposal (“[Proposed Fund-of-Funds Rule](#)”), first proposed in December 2018, designed to streamline and enhance the regulatory framework for registered funds-of-funds under the Investment Company Act of 1940 (“Investment Company Act”). The Proposed Fund-of-Funds Rule would permit registered investment companies (“RICs”) and business development companies (“BDCs”) to invest in other RICs and BDCs beyond the limits currently permitted by section 12(d)(1) of the Investment Company Act without obtaining an exemptive order from the SEC. In order to rely on the Proposed Fund-of-Funds Rule, a fund would need to comply with certain conditions, including certain restrictions on a fund’s ability to:

1. Control other funds;
2. Redeem shares of a fund beyond certain limits within 30 days;
3. Charge multiple layers of fees; and
4. Create overly complex fund structures.

If adopted in its current form, the Proposed Fund-of-Funds Rule would be unavailable to unregistered funds, such as private funds and foreign investment companies, however numerous comment letters were submitted in favor of permitting private funds to rely on the Fund-of-Funds Rule. Private fund managers may wish to monitor the ultimate outcome of the Proposed Fund-of-Funds Rule, in particular, if they wish to offer registered products or engage in substantial investments in RICs or BDCs.

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# SchulteRoth&Zabel Private Funds Regulatory UPDATE

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