SEC Rulemaking Update
Form PF Amendments for Large Hedge Funds & Other Private Funds
Final Rulemaking

On February 8, 2024, the Securities and Exchange Commission (***SEC***) and Commodities Futures Trading Commission (***CFTC***) jointly adopted amendments to Form PF, the reporting form for private funds designed to provide the SEC and Financial Stability Oversight Counsel (***FSOC***) with important, confidential information about the operations and strategies of private funds and to enhance their ability to monitor systemic risk, bolster regulatory oversight of private funds and enhance investor protection. The effective and compliance date for these Form PF amendments is March 12, 2025. These changes followed two other recent amendments to Form PF. The first, in May 2023 required material event disclosures for private equity (***PE***) and large hedge fund (***HF***) managers, which went into effect with initial disclosures required beginning in December 2023. In July 2023, the SEC amended Form PF to require additional information regarding liquidity funds to align with concurrent money market fund reforms applicable to registered investment companies.

The February 2024 Form PF amendments are informed by more than a decade of experience analyzing data reported on Form PF and identifying certain information gaps. As part of these amendments, certain modifications were made to the Form PF instructions and to sections of the form to improve data quality and comparability and provide additional insight into private fund operations and strategies with respect to all Form PF filers. The amendments will require all hedge fund managers to report on the fund's use of digital assets in its investment strategy. In addition, the amendments establish new enhanced reporting for Large Hedge Fund Advisers (advisers with at least $1.5 billion in hedge fund Assets Under Management (***AUM***)) and their Qualifying Funds (funds with a net asset value of at least $500 million) to provide better insight into the operations and strategies of these funds and their advisers and improve data quality and comparability.

These amendments will require significant updates to the way information is aggregated, tracked, and reported in Form PF beginning for most funds in the April 2025 annual filing. Accordingly, *Core* will work with clients in early 2025 to update the Form PF tracking sheet and instructions and will allow additional time for reviewing and gathering information from YE audits to prepare the filing.

Following are specific changes to Form PF based on filer type and the expected impact to private fund managers, which we expect may be significant in some cases:

All Form PF Filers

Amendments were made to Form PF instructions and multiple questions within the form to be completed by all fund managers in order to provide greater insight into the funds' operations and strategies. These changes include the following:

- ***Aggregation & Reporting Instructions***
  - **Master-Feeder Funds** – Form PF instructions will require that each component fund of a master-feeder fund be reported separately, except where a feeder fund invests all its assets in a single master fund, U.S. treasury bills, and/or cash and cash equivalents (i.e., a "***disregarded feeder fund***"). Identifying information will be required for all funds in the master-feeder structure. Currently, the form permits (but does not require) aggregating these structures so long as the adviser does so consistently throughout Form PF. The SEC believes that disregarding data for these funds will provide increased transparency into risk profiles and complex fund structures. While the information for the form still must be gathered in order to calculate and report aggregated information, the data entry is more extensive to report multiple fund structures. However, we have observed that there are relatively few master-feeder funds among fund complexes of SEC-registered firms, and where some or all of those are disregarded feeder funds, the impact should be more measured.
  - **Parallel Fund Structures** – Similarly and for the same reasons as master-feeder funds, Form PF instructions will require that each fund within a parallel fund structure be disaggregated and reported separately, where such funds are currently permitted to be reported on an aggregate basis. Identifying information will be required for all funds in the parallel fund structure. For fund managers with a series of parallel fund structures and/or multiple funds within each parallel fund structure, reporting separately on a disaggregated basis could potentially result in significantly more funds to report in the form.
  - **Parallel Managed Accounts** – Advisers that manage "parallel managed accounts" will be required to report the total value of all parallel managed accounts related to each reporting fund in Question 16 but otherwise will not be permitted to report information regarding such accounts. "Dependent parallel managed accounts" must be aggregated with the largest private fund to which it relates for reporting this question. In addition, dependent managed accounts are aggregated with the fund for purposes of determining whether the fund is a Qualifying Hedge Fund. "Parallel managed account" is defined as any managed account or other pool of assets managed by the adviser that pursues substantially the same investment objective and strategy and invests side by side in substantially the same positions as the identified private fund.

"Dependent parallel managed account" is defined as any related parallel managed account other than a parallel managed account that individually (or together with other parallel managed accounts that pursue substantially the same investment objective and strategy and invest side by side in substantially the same positions) has a gross asset value greater than the gross asset value of such private fund of the parallel fund structure, if applicable.

  - **Fund of Funds** – Advisers are currently permitted to exclude the value of a private fund's equity investments in other private funds (i.e., "***disregarded private funds***") for purposes of determining its reporting threshold (e.g., as a large PE fund or HF) and when to responding to certain questions on Form PF. As amended, Form PF instructions will require advisers to include the value of investments in other (internal and external) private funds when determining their reporting threshold and for responding to questions of the form (unless otherwise instructed in the question). Certain fund of fund managers previously avoided reporting as a large fund manager and/or reporting asset and liability detail with respect to such disregarded funds (which information may not have been readily available). Accordingly, such managers may experience a significant increase in reporting time and burden when required to report as large fund managers and provide additional information with respect to all investments. The instructions will, however, specifically instruct firms not to "look through" a reporting fund's investments in any other entity (including other private funds), except in instances where the form directs otherwise, thereby alleviating the need for information that may not be readily available.
  - **Trading Vehicles** – Private funds may wholly or partially own separate legal entities that hold assets, incur leverage, or conduct trading or other activities as part of the fund's investment activities for jurisdictional, tax, liability, or other regulatory purpose. While not currently reported on Form PF, under amended instructions, advisers will be required to identify such trading vehicles and report answers on an aggregated basis for the reporting fund and such trading vehicle. These updates were designed to capture trading vehicles utilized by hedge fund managers (rather than vehicles within portfolio company structures for private equity funds). Not all private funds utilize such trading vehicles; however, for those that do, the reporting burden will increase proportionately.
- ***Section 1a Updates***
  - **Legal Entity Identifiers** – Instructions will confirm that legal entity identifiers provided should not include an RSSD ID as a substitute for an LEI.

- **Assets Under Management** – Instructions to question 3 will direct advisers as follows:
  - *Private Fund Assets* – Exclude the value of private funds' investments in other internal private funds to avoid double counting of fund of fund assets.
  - *Trading Vehicle Assets* – Include the value of trading vehicle assets consistent with looking through investments in such vehicles.
- **Miscellaneous Disclosures** – Instructions will direct advisers to provide the question number when the assumptions relate to a particular question. The current Form PF is already designed to include the question number, although sometimes a response applies to more than one question. Accordingly, the same disclosure may need to be listed multiple times for multiple questions. Currently, some disclosures are reported as "general" and may need to be assigned to specific question number(s), depending on the functionality of the system upon the compliance date.
- **Affiliated CPO/CTA** – Will require advisers to indicate whether it or any related person(s) is registered or required to be registered as a commodity pool operator (**CPO**) or commodity trading adviser (**CTA**) and provide the legal name of such entity.
- **Data Quality Enhancements** – Instructions to Form PF were amended to enhance data quality as follows:
  - *Percentages* – Questions requiring information expressed as a percentage should be rounded to the nearest one-hundredth of one percent rather than the nearest whole percent.
  - *Values & Exposures* – Updated instructions on valuing investment positions, derivatives, long and short positions, counterparty exposures, and conversion to U.S. dollars.
  - *Outdated Terms* – Updated certain defined terms to remove outdated information or reflect more current terminology.

- ***Section 1b Updates***
  - **Type of Private Fund** – Will require advisers to indicate the type of fund for each reported fund to better identify discrepancies between reporting on Form ADV and Form PF. Fund types will include (i) hedge fund that is not a qualifying hedge fund; (ii) qualifying hedge fund; (iii) liquidity fund; (iv) private equity fund; (v) real estate fund; (vi) securities asset fund; (vii) venture capital fund; and (viii) other – which will require a description.

- **Commodity Pools** – Will also require advisers to indicate whether a reporting fund is a "commodity pool" which is categorized as a hedge fund on Form PF.
- **UCITS/AIF/Foreign Money Market Funds** – Will require identification of any fund that operates as a ***UCITS*** fund (Undertakings for Collective Investment in Transferable Securities) or ***AIF*** (Alternative Investment Fund) under the European Union (***EU***) regime and note the countries in which the reporting fund operates. Will further require identification of any money market fund offered outside the United States.
- **Withdrawal or Redemption Rights** – Will require advisers to indicate whether the reporting fund is an open-end private fund or a closed-end private fund, as defined below. Open-end funds will be required to indicate (i) how often withdrawals or redemptions are permitted by selecting from a list of categories and (ii) what percentage of the reporting fund's net asset value may be, or is, subject to a suspension of, or material restrictions on, investor withdrawals/redemptions by an adviser or fund governing body.
    - "*Open-End Private Fund*" will be defined as a private fund that offers redemption rights to its investors in the ordinary course, which may be paid in cash or in kind, irrespective of redemption frequency or notice periods and without regard to any suspensions, gates, lockups, or side pockets that may be employed by the fund.
    - "*Closed-End Private Fund*" will be defined as any private fund that only issues securities, the terms of which do not provide a holder with any right, except in extraordinary circumstances, to withdraw, redeem, or require the repurchase of such securities, but which may entitle holders to receive distributions made to all holders' pro rata.
- **Gross & Net Asset Value** – Large hedge fund advisers and large liquidity fund advisers will be required to report net asset value and gross asset value (or, if such values are not calculated monthly, the reporting fund aggregate calculated value (***RFACV***) and the gross reporting fund aggregate calculated value (***GRFACV***), respectively) as of the end of each month of the reporting period in their quarterly filings, rather than only reporting the information as of the end of the reporting period, as Form PF currently requires. RFACV and GRFACV may be calculated using the adviser's own methodologies or those of its service providers, provided that the methodologies used to calculate RFACV and GRFACV are consistent with information reported internally.
- **Inflows & Outflows** – Will require reporting of contributions (excluding contributions of committed capital already included in regulatory assets under

management [***RAUM***]), withdrawals, redemptions, and other distributions to investors. Large hedge funds and large liquidity funds are required to report this information for each month in the reporting period.

- **Base Currency** – This will require identifying the base currency of all reporting funds. Currently, this information is required only for large hedge funds. The form will continue to require that all monetary values reported on the form be reported in U.S. dollars rather than any other base currency.
- **Borrowings & Types of Creditors** – Updated definition of "borrowings" to include synthetic long positions and provide a non-exhaustive list of types of borrowings consistent with the SEC's Form PF FAQ. Updated definitions of "synthetic long position" and "synthetic short position" to more clearly address "deep-in-the-money" positions. Will require filers to indicate whether a creditor is based in the U.S. and is a U.S. depository institution, rather than a U.S. financial institution as is currently required.
- **Fair Value Hierarchy** – Will require the date on which the fair value hierarchy categorization was performed and will instruct advisers to report the estimated values for the fiscal year if their audit is not yet complete when Form PF is due and note this fact in Miscellaneous Disclosures. Form PF may be (but is not required to be) updated when the audits are complete. All liabilities will be required to be reported based on absolute value. Will require an explanation in Miscellaneous Disclosures if assets are reported as a negative value. Will require separate reporting of "cash and cash equivalents," the definition of which will exclude government securities and digital assets.
- **Beneficial Ownership Reporting** – This will require more granularity regarding whether institutional investors are U.S. persons or non-U.S. persons but will not require more detailed reporting by country for non-U.S. investors. Will require advisers to note whether owners that are other private funds are internal private funds (managed by the adviser or its related persons) or external private funds. Will require delineation of U.S. "state" investors. Will require a description in the Miscellaneous Disclosures of any investors listed as "Other." If an adviser is unable to determine the required beneficial ownership data, it must provide additional explanation in Miscellaneous Disclosures.
- **Fund Performance** – The performance reporting question will be modified to distinguish between the type of return reported, noting that some funds report a "rate of return," which is time-weighted, and others report an "internal rate of return," which is money-weighted. The methodology used to report performance should remain consistent over time. For funds that calculate a market value on a daily basis for any position in the fund, the form will require

new information, as listed below. If a fund reports different performance results to different groups, the firm will be required to provide the most representative results and explain the selection in Miscellaneous Disclosures. Performance should be calculated using the fund's base currency. Performance results for more than one year must be annualized and less than one year must not be annualized.

- *Internal Rate of Return (IRR)* – This will include a new question for reporting IRR since inception (as is common for private equity and other closed-end funds). The question will not require both gross and net performance but will require disclosure as to whether the return includes the effect of a subscription line of credit. Firms will not be required to provide quarterly IRRs unless such results are calculated for any purpose.
- *Rate of Return or Other Returns* – This will include a redesigned performance table for reporting total return or other performance metrics and will require both gross and net performance. The table will provide specific instructions regarding which lines to complete depending on whether an adviser is submitting an initial filing, annual update, or quarterly update.
- *Daily Return Metrics* – If applicable, will require i) the fund's aggregate calculated value at the end of the period, or at the end of each month for quarterly filers; (ii) annualized fund volatility for each month in the reporting period following a prescribed methodology; and (iii) whether the fund had one or more days with a negative daily rate of return during the reporting period. If so, the adviser will be required to report (1) the most recent peak-to-trough drawdown and indicate whether the drawdown was continuing on the data reporting date, (2) the largest peak-to-trough drawdown, (3) the largest single-day drawdown, and (4) the number of days with a negative daily rate of return in the reporting period.

Hedge Fund Filers

As part of the rulemaking, the SEC requested comment and considered whether to update the definition of "hedge fund" as defined in the Form PF Glossary of terms. Commenters generally supported revising the definition of "hedge fund" to remove deemed hedge funds (i.e., a private fund reported as a "hedge fund" as Form PF directs because the fund's governing documents permit the fund to engage in certain borrowing and short selling (even though it did not do so at any time in the past)). Commenters supported revising the definition of "hedge fund" to exclude private funds that have an ability to use leverage or engage in shorting but do not do so in the ordinary course of business and that the market does not generally consider to be hedge funds. Other commenters proposed applying de minimis tests with respect to such activity, exclusions for private funds whose borrowing activities are only related to real estate, or considering how the private fund holds itself out to the industry. However, after considering comments, the SEC determined not to adopt any amendments to the existing definition of "hedge fund."

Changes were made to Form PF sections applicable to hedge fund advisers to provide greater insight into hedge funds' operations and strategies, assist in identifying trends, and improve data quality and data comparability for purposes of systemic risk assessments and to further investor protection efforts. Certain questions were removed whereas other questions provide the same or more useful data to streamline reporting and reduce reporting burdens.

- ***Section 1c Updates***
    - **Investment Strategies** – Will update and expand the strategy categories included in the form (including strategies previously attributed only to private equity funds) and require advisers to indicate which investment strategies best describe the reporting fund's strategies on the last day of the reporting period, rather than allowing advisers flexibility to report information as of the data reporting date or throughout the reporting period, as Form PF currently provides. Will require a description in the Miscellaneous Disclosures of any strategy listed as "Other."
    - **Counterparty Exposures** – Will refine the identification of and disclosures related to material counterparties. Will require (except for Qualifying Hedge Funds, which will report more detailed information in Section 2) a new "consolidated counterparty exposure table" to disclose exposures that (1) the reporting fund has to creditors and counterparties, and (2) creditors and other counterparties have to the reporting fund. Advisers will be required to report the U.S. dollar value of the reporting fund's "borrowing and collateral received (B/CR)," as well as its "lending and posted collateral (L/PC)," aggregated across all counterparties, including central clearing counterparties ("CCPs"), as of the end of the reporting period. Advisers will be required to classify information according to type (e.g., unsecured borrowing, secured borrowing, derivatives cleared by a CCP, and uncleared derivatives) and the governing legal agreement. Will require more detailed disclosure if one or more prime brokerage agreements provide for cross-margining of derivatives and secured financing transactions.
    - **Trading & Clearing Mechanisms** – Will require advisers to report (1) the value traded and (2) the value of positions at the end of the reporting period, rather than requiring advisers to report information as a percentage in terms of value and trade volumes, as Form PF currently requires. Will require advisers to report information about trading and clearing mechanisms for transactions in interest rate derivatives separately from other types of derivatives. Disclosure

requirements regarding repurchase agreements (repos) and reverse repos will be refined.

Section 2 Updates – Large Hedge Fund Filers

The reporting deadline for Large Hedge Fund quarterly filings is 60 days after the calendar quarter end rather than based on fiscal quarter end dates, beginning by the first calendar quarter-end filing for the first full quarter after the March 12, 2025, compliance date (i.e., the Q2 2025 quarterly filing will be due August 29, 2025). Multiple amendments were made to Section 2, which must be completed by Large Hedge Fund advisers with respect to Qualifying Hedge Funds, to improve data quality and comparability to enable better systemic risk monitoring and enhance the SEC's regulatory programs and investor protection efforts, Amendments included removing aggregate reporting required in Section 2a, which SEC staff found to be less meaningful for analysis and more burdensome for advisers to report while preserving and enhancing reporting on a per fund basis in existing Section 2b, which was redesignated as Section 2.

At a high level, amendments to Section 2 were designed to:

- Enhance, expand, and simplify investment exposure reporting;
- Revise open and large position reporting;
- Revise borrowing and counterparty exposure reporting;
- Revise market factor effects reporting; and
- Make other changes to streamline and enhance the value of data collected by:
    - Adding reporting on currency, turnover, country, and industry exposure;
    - Adding new reporting on CCPs;
    - Streamlining risk metric reporting;
    - Collecting new information on investment performance by strategy; and
    - Enhancing portfolio and financing liquidity reporting.

Additional detail regarding these changes is available in the instructions to the amended Form PF. *Core* will provide additional detail to applicable Large Hedge Fund filers.

See Final Rule – https://www.sec.gov/rules/2022/08/form-pf-reporting-requirements-all-filers-and-large-hedge-fund-advisers