SEC Checks Funds for Russia Risk Disclosure

By The Moscow Times

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WASHINGTON — U.S. securities regulators contacted public funds with investments in Russia to make sure they are properly managing risks and disclosing their holdings to investors as political tensions rose over Crimea, according to several people familiar with the matter.

Attorneys with the U.S. Securities and Exchange Commission started to place calls to registered investment companies such as mutual funds and exchange-traded funds more than a week ago, the sources said.

The calls are a routine part of how the SEC monitors asset managers through its Division of Investment Management, and are not related to any investigation.

But they come during a period of turbulence for Russian stocks, which have been volatile since March 3 when mounting tensions with Ukraine over the Crimean peninsula sent Russia's benchmark stock index tumbling 12 percent.

Russian stocks fell 14 percent between Feb. 28 and March 14, but have recovered 6.6 percent this week.

They are now down 12.3 percent so far in 2014.

The people familiar with the calls say SEC lawyers are not trying to tell funds how to invest, advice that would not be in the SEC's mission.

Rather, the regulators are focused on whether funds are being open with investors, and whether the funds are thinking and preparing about how they might respond to different scenarios or outcomes.

"We want to be proactive, so we are making sure the firms are thinking about it," SEC Investment Management Division director Norm Champ said.

The SEC's routine reviews include making sure funds are not omitting or misrepresenting material information to the marketplace.

In at least one case, a source said, the SEC did not question the fund's existing disclosures, but urged the fund to consider updating its disclosures in the future to address the events in Crimea.

White House Warning

The contacts by the SEC began well before White House spokesman Jay Carney warned U.S. investors away from Russian stocks at a news briefing on Tuesday.

In an unusual statement, he said those stocks could lose value because of sanctions that the U.S. and European Union have put in place and others that they could add. The U.S. and the EU imposed travel bans and asset freezes on a number of officials from Russia and Ukraine after Moscow declared the Crimean peninsula a part of Russia.

The SEC has been particularly interested in speaking with funds that have more than 10 percent exposure to Russian securities, including stocks and bonds, one person familiar with the agency's activities said.

Fund companies that have received calls from the SEC told the regulator they believe their disclosures are sound and adequate, two sources said.

Funds with at least 10 percent exposure to Russian stocks include the ING Russian Fund, T Rowe Price Emerging Europe Fund, Fidelity Emerging Europe Middle East Africa Fund, Goldman Sachs BRIC Fund and the Templeton BRIC Fund, according to a list compiled by Lipper, a unit of Thomson Reuters.

Multiple Cases

The SEC regularly contacts fund companies when international unrest occurs.

For example, it has made similar calls in connection with concerns about mutual funds' exposure to Puerto Rico, which had its debt downgraded earlier this year.

The SEC also reached out to funds when there was an uprising in Egypt in 2011 that led the country to close down its stock market.

A unit in the SEC's Investment Management Division that specializes in disclosure has historically been in charge of reviewing fund holdings and public statements to investors in times of civil unrest.

However, in the recent calls to funds with Russian investments, another group of SEC employees who specialize in risk examinations have joined those disclosure experts, one person said.

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