

Investment Management Update

November 2026

SEC Proposes Interval Fund Rule Updates and Multi-Class Relief for Closed-End Funds and BDCs

Key Notes:

- SEC proposal adds a one-month periodic interval to Rule 23c-3, eliminating the need for exemptive relief to conduct monthly repurchase offers while retaining the 5% minimum repurchase offer amount.
- Permits interval funds to defer their first repurchase offer for up to two years, regardless of the length of the fund's periodic interval.
- Replaces the 100% liquid asset coverage requirement with a principles-based liquidity management standard.
- Permits discretionary repurchase offers once every 12 months rather than once every two years.
- Extends Rules 18f-3 and 17d-3 to permit continuously offered, unlisted registered closed-end funds and BDCs to issue multiple share classes without an exemptive order and proposes to rescind almost all existing related exemptive orders.

On September 30, the SEC proposed amendments to Rule 23c-3 under the Investment Company Act of 1940, as amended, along with amendments to Rules 18f-3 and 17d-3 and Forms N-2, N-CEN and N-23c-3 (the Proposal). The SEC states that the Proposal is intended to "modernize, enhance, and simplify the interval fund framework while maintaining appropriate investor protections and safeguards." The Proposal would allow interval funds to better match the liquidity profiles of the assets in which they invest by providing more flexibility in the timing and structure of repurchase offers while also replacing the current prescriptive liquidity requirement with a principles-based approach. The Proposal would also codify what the SEC describes as "routine exemptive relief" permitting registered closed-end funds and business development companies (BDCs) (collectively, Regulated Closed-End Funds) to issue multiple share classes.

The Proposal was released as part of a broader SEC initiative to expand retail access to private markets, which also includes a separate proposal to expand the ability of registered investment advisers to charge performance-based compensation to registered funds and BDCs and potential new methods for individuals to qualify as accredited investors. The Proposal was published in the Federal Register on October 5 and comments are due on or before December 4.

Background

Adopted in 1993, Rule 23c-3 permits Regulated Closed-End Funds to make periodic repurchase offers to shareholders at net asset value pursuant to a fundamental policy. The rule has remained largely unchanged since its adoption, and the SEC notes that certain of its provisions have become "outdated, operationally burdensome, or less responsive to the evolving realities of modern interval fund operations." The SEC points to substantial growth in the interval fund market in recent years, from $38 billion in assets in 2020 to $101 billion in 2025.

Deferral of First Repurchase Offer

Currently, an interval fund's first repurchase request deadline must occur no later than two periodic intervals after the effective date of its registration statement (or the shareholder vote adopting its fundamental policy). Thus, a fund with a quarterly interval has six months and a fund with a semiannual interval has one year before its first repurchase request deadline. This creates the potential for "cash drag," as fund managers need to ensure funds have the liquidity necessary to meet early repurchase requests. Under the Proposal, all interval funds would be permitted

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to defer their first repurchase offer for up to two years, regardless of the length of the fund's periodic interval, although funds could still begin offering repurchases earlier.

The SEC explains that the extended deferral period is designed to provide a fund with additional time to "ramp up" its portfolio and align its liquidity terms with the underlying asset classes targeted by its strategy. Importantly, a fund that subsequently changes its periodic interval would not receive an additional ramp-up period, and a fund relying on the extended period would need to disclose its duration in the prospectus.

Monthly Periodic Intervals

Rule 23c-3 currently permits repurchase offers at three-, six- and 12-month intervals, although the SEC has previously granted exemptive orders permitting certain funds to conduct monthly repurchase offers. The Proposal would amend the definition of a "periodic interval" to include a one-month period. Notably, monthly interval funds would remain subject to the Rule 23c-3 requirement to offer to repurchase at least 5% and no more than 25% of outstanding common stock in each offer. Currently, at least one existing exemptive order permits a monthly fund to offer as little as 2% per month, provided it offers at least 5% over each three-month period. The SEC has requested comments on whether to adopt a similar approach.

To accommodate monthly intervals, the Proposal would change the shareholder notification window for all interval funds from 21-42 days to 14-42 days before the repurchase request deadline. The Proposal would also require that the repurchase payment deadline occur no later than seven days after the repurchase pricing date and at least one business day before notification of the next repurchase offer, so that a fund completes each repurchase cycle before beginning the next. Existing funds would need shareholder approval to amend their fundamental policies to change to a monthly interval.

Principles-Based Liquidity Management

Under Rule 23c-3, from the time a fund notifies shareholders of a repurchase offer until the repurchase pricing date, the fund must hold assets equal to at least 100% of the repurchase offer amount that can be sold or disposed of in the ordinary course of business at approximately the price at which the fund has valued them. The Proposal would eliminate this bright-line test and instead require a fund to manage its portfolio's liquidity so that it can satisfy repurchase requests "without requiring a sale or disposition of the fund's investments at a price that deviates significantly from the value of those investments." Under this approach, funds could rely on multiple layers of liquidity, such as subscriptions, scheduled loan repayments, targeted dispositions and credit facilities. The Proposal would also eliminate the current requirement that the board take action in the event of a liquidity shortfall. This change would also apply to non-interval funds making discretionary repurchase offers under Rule 23c-3.

More Frequent Discretionary Repurchases

Rule 23c-3(c) currently permits any Regulated Closed-End Fund, including a non-interval fund, to make a discretionary repurchase offer no more than once every two years. The Proposal would permit discretionary repurchase offers once every 12 months. The SEC explains that it does not view the added flexibility as circumventing an interval fund's fundamental policy and that the change would provide funds with a more timely mechanism to respond to market events or significant investor repurchase pressure. The Proposal would also clarify that the 5% to 25% offer amount limits apply only to repurchase offers made pursuant to a fundamental policy, meaning that discretionary offers may be for any amount.

Multiple Share Classes for Regulated Closed-End Funds

Since 2007, the SEC has issued approximately 230 exemptive orders permitting unlisted, continuously offered Regulated Closed-End Funds to offer multiple share classes. The Proposal would amend Rule 18f-3 to permit these funds to issue multiple share classes without an exemptive order and would amend Rule 17d-3 to permit Regulated Closed-End Funds and their affiliates to enter into arrangements for the payment of asset-based distribution and service fees. Funds would generally be subject to the conditions applicable to open-end funds, including a board-approved written Rule 18f-3 plan and class-specific expense

allocation and voting, along with additional conditions specific to closed-end funds, including that:

- The fund continuously offers its shares and its shares are not listed or traded on a secondary market, including a blockchain-based alternative trading system
- Distribution and service fees are charged pursuant to a plan that complies with Rule 12b-1 as if the fund were an open-end fund
- Repurchase offers are made equally to all classes, with oversubscription and pro rata calculations made on a fund-wide basis
- Exchanges between funds comply with Rule 11a-3

Unlike existing exemptive orders, compliance with FINRA Rule 2341 or Rule 2310 would not be a condition of the rule-based relief. Listed closed-end funds and funds that combine listed and unlisted classes would still need to obtain individual exemptive relief.

Disclosure and Reporting Changes

The Proposal would amend Form N-2 to require multiple share class disclosure largely mirroring the open-end fund framework, including per-class cover page information, fee table instructions (including a Rule 12b-1 fee caption) and per-class performance disclosure. Importantly, certain disclosure changes would apply to all Form N-2 filers, including listed closed-end funds and tender offer funds, such as a new fees and expenses legend, an increase in the assumed investment used in the prospectus expense example to $10,000 and enhanced expense disclosure in shareholder reports. The Proposal would also extend existing Form N-CEN multiple share class reporting to registered closed-end funds.

Rescission of Exemptive Orders and Compliance Period

The SEC proposes to rescind almost all existing exemptive orders permitting monthly repurchase intervals and multiple share class structures, including orders permitting a 2% monthly minimum. The SEC would not rescind a recently issued order permitting multiple share class structures that include exchange-traded and tokenized share classes. Rescission would occur following a one-year compliance period after the effective date of the amendments. Funds could rely on the amended rules earlier, provided they satisfy all applicable requirements, including the related Form N-2 disclosures.

Observations

If adopted, the Proposal would implement the most significant changes to the interval fund framework since Rule 23c-3 was adopted and might make the structure more viable for sponsors seeking to offer retail investors exposure to private market strategies. Existing interval funds that rely on monthly repurchase or multiple share class exemptive orders should review their current repurchase policies, notification timelines, fee arrangements and disclosures against the proposed conditions, as they would need to conform to the amended rules before their orders are rescinded.

FOR MORE INFORMATION

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