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March 12, 2026

Vanessa A. Countryman
Secretary
US Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **Amendments to the "Small Business" and "Small Organization" Definitions for Investment Companies and Investment Advisers for Purposes of the Regulatory Flexibility Act (File No. S7-2026-01)**

Dear Ms. Countryman:

Federated Hermes, Inc.[1] appreciates the opportunity to comment on the Securities and Exchange Commission's proposed amendments to the definitions of "small business" and "small organization" for investment companies and investment advisers for purposes of the Regulatory Flexibility Act (RFA).[2] We support modernizing these definitions and urge the SEC to use this rulemaking not only to recalibrate size thresholds but also to strengthen its analytical and procedural practices so that regulatory burdens do not fall disproportionately on smaller registrants. We believe the Proposal presents an opportunity to improve cost–benefit assessments for all registrants.

Background

The SEC's small-entity designation for investment companies and investment advisers has not kept pace with market growth, industry concentration, and technology changes. Smaller funds and advisers typically face higher per-unit compliance costs and thinner operational margins, which can reduce competition and investor choice. Updating thresholds and embedding regular

[1] Federated Hermes, Inc. (NYSE: FHI) is a global leader in active, responsible investment management, **with $902.6 billion in assets under management as of December 31, 2025.** We deliver investment solutions that help investors target a broad range of outcomes and provide equity, fixed-income, alternative/private markets, multi-asset and liquidity management strategies, including money market funds, to more than 10,000 institutions and intermediaries worldwide. Our clients include corporations, government entities, insurance companies, foundations and endowments, banks, and broker-dealers.

[2] *Amendments to the "Small Business" and "Small Organization" Definitions for Investment Companies and Investment Advisers for Purposes of the Regulatory Flexibility Act*, SEC Release No. IC-35864 (January 7, 2026) ("Proposal")

adjustments can enhance resiliency while aligning analysis with the entities most likely to experience significant economic effects.

Proposed Thresholds

The Proposal would amend the definition of "small entity" by raising the net asset threshold for investment companies from $50 million to $10 billion, and the assets under management threshold for investment advisers from $25 million to $1 billion. As the SEC notes, if adopted, approximately 23 percent of individual investment companies would qualify as small entities, compared with less than 1 percent under the current definition. Similarly, approximately 75 percent of investment advisers—including exempt reporting advisers—would meet the revised definition, compared with approximately 3 percent of registered investment advisers under the existing threshold framework.

We strongly support the Investment Company Institute's (ICI) recommendations for increasing these thresholds while also considering the potential impact of setting the small adviser threshold at a level that differs considerably from the proposed small fund threshold. As the ICI notes in its letter, this mismatch between the small fund and small adviser thresholds could produce anomalous outcomes where an adviser managing a few billion dollars (in funds only) is not considered "small," while the funds it manages are. To avoid this gap, the SEC could consider adjusting upward the RAUM threshold and clarify in applicable individual rulemakings that if either a fund complex or its adviser qualifies as small, both would be treated as small for purposes of that rulemaking.

Periodic Inflation Adjustment

The Proposal would permit the SEC to make future inflation adjustments to the asset-based thresholds by order every 10 years to ensure that the thresholds do not become less useful over time due to growth in the markets or any change in the industry. We strongly support periodic adjustments given expected industry growth, but suggest the SEC undertake the adjustments more frequently, such as every 7 years as ICI recommended, and early-action triggers if data show threshold drift or unintended small-entity impacts.

Additional Recommendations

1. **Reassessment Mechanisms**. Many real-world burdens and unintended consequences only become apparent as registrants approach compliance dates and begin operationalizing new requirements. While the SEC provides estimates of expected costs during rulemaking, actual implementation frequently reveals operational complexities that can materially exceed the

estimated costs. These unanticipated compliance burdens often fall disproportionately on smaller entities, which lack the size and resources of larger competitors. Moreover, when compliance costs become excessively high or unpredictable, rules (i.e., new or amended) can unintentionally accelerate industry consolidation, reduce competition, and ultimately limit investor choice as firms exit the market.

For these reasons, we support the establishment of formal reassessment windows following a rule's effective date and before end of the rule's compliance dates. Such a mechanism would allow the SEC to reevaluate burdens caused by implementation challenges and make targeted adjustments where the costs of compliance (and the consequences of rulemaking) materially surpass those originally identified.

2. **Size-segmented, decision-useful cost–benefit analysis.** To understand real-world burdens on smaller entities, each rulemaking should quantify costs as a share of small firms' revenues/AUM to show proportional impact on smaller entities. As part of this analysis, the SEC should analyze the cumulative impacts and interactions with concurrent proposals (including their comment period deadlines and proposed compliance timelines) or recently adopted rules.

Regulatory Burdens that Disproportionately Impact Small Entities

Under Section 610 of the RFA, the SEC must review its rules within ten years of their publication to determine whether they should be continued without change, amended, or rescinded to minimize any significant economic impact on small entities. We believe these retrospective reviews are an essential component of sound regulatory governance. Indeed, it is important that the SEC proactively and consistently conduct Section 610 reviews rather than treating them as a procedural formality. In this regard, we encourage the SEC to conduct Section 610 reviews aggressively and thoroughly, with specific attention to whether cumulative or unforeseen costs have emerged over time. Regular reassessment helps ensure that longstanding rules continue to function as intended and do not impose unnecessary, outdated, or disproportionate burdens—particularly on smaller market participants, which often lack the resources to absorb incremental compliance costs.

We further believe that the SEC should apply the spirit of Section 610 to rules that fall outside the ten-year window. A robust and ongoing retrospective review program promotes regulatory efficiency and helps maintain a fair and competitive marketplace.

Additionally, we note that the February 18, 2025, Executive Order emphasizes the need for federal agencies to identify and curtail rules that impose unnecessary or excessive regulatory burdens. We believe this directive aligns closely with the RFA's objectives and provides further

impetus for the SEC to examine existing rules to ensure that regulatory obligations and costs remain proportional to their intended benefits.

With this in mind, we offer the following examples of rules that should be on the regulatory review agenda to address the excesses of prior administrations in the regulation of investment companies.

1. **2023 Money Market Fund Reform: Mandatory Liquidity Fee.** The 2023 amendments to Rule 2a-7 introducing a mandatory liquidity fee for institutional prime and institutional tax-exempt money market funds raise significant concerns regarding operational feasibility and overall market functioning. [3] Implementing a mandatory liquidity fee requires substantial system modifications and real-time monitoring capabilities. Moreover, the mandatory liquidity fee framework has already contributed to a contraction of the institutional prime and tax-exempt MMF markets, as several significant participants have exited these products due to the heightened operational complexity and associated risks. This has reduced competition and leaves investors with fewer choices, ultimately creating a more concentrated and less resilient marketplace. The structure of the mandatory liquidity fee also creates a barrier to entry. New or smaller funds—lacking size—face a disproportionate likelihood of incurring a fee, making it more difficult to compete with larger funds. As a result, the reforms unintentionally favor size over competition, discourage new entrants, and have further accelerated industry consolidation. We believe, therefore, that Rule 2a-7 should be amended to eliminate the mandatory liquidity fee framework.

2. **NYSE Rule 452(e)—Proxy Mechanics and Meeting Costs**. Since the adoption of NYSE Rule 452(e) in 2009, holding shareholder meetings has become very expensive and, in some cases, prohibitively expensive, especially for smaller funds. Unfortunately, and realistically, many shareholders do not respond to proxy solicitations. Rule 452(e), while well intended, has made it difficult for funds to address routine matters, such as the election of directors, and it is nearly impossible to cost-effectively deal with special meetings, such as amending dated organizational documents (for example, to permit liquidation of a fund by a vote of the board). We believe Rule 452(e) should be amended to restore broker discretion on truly

[3] The mandatory liquidity fee was not only unnecessary (given that delinking the consideration of liquidity fees and redemption gates from weekly liquid assets was more than sufficient to address concerns raised by the onset of the COVID-19 pandemic in March 2020), but it was also adopted in a legally questionable manner because the SEC provided no notice or opportunity for public comment on the MLF as required under the Administrative Procedure Act. *See* 5 U.S.C. §§ 701-706; *Money Market Fund Reforms*, SEC Release No. IC-34441 (December. 15, 2021); and *Money Market Fund Reforms*, SEC Release No. IC-34959 (July 12, 2023).

routine matters and consideration of quorum flexibility to reduce cost burdens that fall on all funds large and small.

3. **Tailored Shareholder Reports (TSR).** While we support concise disclosure, the TSR regime has materially increased operating and personnel costs for all funds—especially class-by-class production—while offering limited, if any, incremental utility to average shareholders. We suggest either eliminating TSRs or permitting consolidated reporting with cross-references to fuller disclosures posted online.

4. **E-Delivery of Required Regulatory Documents.** We were pleased to hear that Chairman Atkins is actively involved in modernizing e-delivery for shareholder communications.[4] The SEC's foundational delivery rules—established through releases in the mid-1990s—continue to require paper delivery unless the investor proactively consents to electronic delivery ("opt-in"). We support making electronic delivery the default method for investor communications across the financial services industry, with an unconditional paper "opt-out." Default paper mailings are antiquated and costly. On the other hand, default e-delivery would reduce costs, improve timeliness and accessibility, and better align with investor preferences while preserving print upon request. Concerns about the impact of e-delivery on senior citizens could potentially be addressed by "grandfathering" investors over the age of seventy-five without an affirmative opt out.

We appreciate the SEC's efforts to modernize the small entity rules and to ensure that future rulemakings meaningfully account for the economic realities of smaller registrants. We would welcome the opportunity to discuss these recommendations.

Sincerely,

/s/ Peter Germain

Peter Germain
Chief Legal Officer

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[4] *See* Paul S. Atkins, *Testimony Before the House Financial Services Committee*, U.S. Securities and Exchange Commission, February 11, 2026. Although the official written testimony does not contain references to e-delivery, Chairman Atkins did discuss e-delivery during the hearing itself. See *Hearing Entitled: Oversight of the Securities and Exchange Commission* (lists Chairman Atkins as witness and links to the livestream/YouTube archive).

cc. The Honorable Paul S. Atkins, Chairman
The Honorable Hester M. Peirce, Commissioner
The Honorable Mark T. Uyeda, Commissioner

Brian Daly, Director
Division of Asset Management