

118TH CONGRESS
1ST SESSION

H. R. 500

IN THE SENATE OF THE UNITED STATES

JANUARY 31, 2023

Received; read twice and referred to the Committee on Banking, Housing, and
Urban Affairs

AN ACT

To amend the Investment Company Act of 1940 to postpone the date of payment or satisfaction upon redemption of certain securities in the case of the financial exploitation of specified adults, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Financial Exploitation
3 Prevention Act of 2023”.

4 **SEC. 2. REDEMPTION OF CERTAIN SECURITIES POST-**
5 **PONED.**

6 (a) IN GENERAL.—Section 22 of the Investment
7 Company Act of 1940 (15 U.S.C. 80a–22) is amended by
8 adding at the end the following:

9 “(h) REQUIREMENTS WITH RESPECT TO NON-INSTITI-
10 TUTIONAL DIRECT AT-FUND ACCOUNTS.—

11 “(1) ELECTION.—

12 “(A) IN GENERAL.—A registered open-end
13 investment company and a transfer agent de-
14 scribed under paragraph (2) may elect to com-
15 ply with the requirements under paragraph (2)
16 and subsection (i) by notifying the Commission
17 of such election.

18 “(B) EFFECT OF ELECTION.—Paragraph
19 (2) and subsection (i) shall only apply to a reg-
20 istered open-end investment company and a
21 transfer agent that have made the election
22 under subparagraph (A).

23 “(2) REQUIREMENTS.—In the case of a cus-
24 tomer who is a holder of a non-institutional account
25 held directly with a registered open-end investment
26 company and serviced by a transfer agent (a ‘direct-

1 at-fund account’), the company and transfer agent
2 shall—

3 “(A) request from such customer the name
4 and contact information of at least one indi-
5 vidual who—

6 “(i) is at the time of such request an
7 adult; and

8 “(ii) may be contacted with respect to
9 such account;

10 “(B) document and retain the information
11 received pursuant to subparagraph (A); and

12 “(C) disclose to such customer in writing
13 (including through electronic delivery) that such
14 company or transfer agent may contact an indi-
15 vidual specified pursuant to subparagraph (A)
16 with respect to the account of such customer
17 to—

18 “(i) address possible financial exploi-
19 tation of such customer;

20 “(ii) confirm the contact information
21 or health status of the customer; or

22 “(iii) identify any legal guardian, ex-
23 ecutor, trustee, or holder of a power of at-
24 torney of the customer.

1 “(i) REDEMPTION OF CERTAIN SECURITIES POST-
2 PONENT.—

3 “(1) IN GENERAL.—Notwithstanding subsection
4 (e), a registered open-end investment company or a
5 transfer agent acting on behalf of such company
6 may postpone the date of payment or satisfaction
7 upon redemption of any redeemable security in ac-
8 cordance with its terms for more than seven days
9 after the tender of such security to such company or
10 its agent designated for that purpose for redemption
11 if such company or agent reasonably believes that—

12 “(A) the redemption is requested by a se-
13 curity holder who is a specified adult; and

14 “(B) financial exploitation has occurred, is
15 occurring, or has been attempted with respect
16 to such redemption.

17 “(2) DURATION.—

18 “(A) IN GENERAL.—Except as provided in
19 subparagraphs (B) and (C), a registered open-
20 end investment company or a transfer agent
21 acting on behalf of such company may postpone
22 the date of payment or satisfaction upon re-
23 demption of a redeemable security under para-
24 graph (1) for a period of not more than 15
25 business days.

1 “(B) EXTENSION UPON DETERMINATION
2 OF EXPLOITATION.—The period described in
3 subparagraph (A) may be extended by an addi-
4 tional 10 business days if the registered open-
5 end investment company or a transfer agent
6 acting on behalf of such company—

7 “(i) reasonably believes that—

8 “(I) the redemption is requested
9 by a security holder who is a specified
10 adult; and

11 “(II) financial exploitation has
12 occurred, is occurring, or has been at-
13 tempted with respect to such redemp-
14 tion;

15 “(ii) subject to subparagraph (D), not
16 later than 2 days after making a deter-
17 mination under clause (i), notifies the indi-
18 viduals specified by such security holder
19 under subsection (h)(2)(A) in writing (in-
20 cluding through electronic delivery) of the
21 extension of the period described in sub-
22 paragraph (A) under this subparagraph
23 and the reason for such extension;

1 “(iii) initiates an internal review of
2 the facts and circumstances relating to the
3 determination under clause (i);

4 “(iv) holds amounts related to the de-
5 layed payment or satisfaction upon re-
6 demption of the redeemable security in a
7 demand deposit account; and

8 “(v) documents and retains records
9 related to carrying out clause (iv) and in-
10 cludes such records in the first required
11 account statement of the security holder
12 provided after the date on which the deter-
13 mination is made under clause (i).

14 “(C) EXTENSION BY GOVERNMENT.—A
15 State regulator, administrative agency of com-
16 petent jurisdiction, or court of competent juris-
17 diction may extend the period described in sub-
18 paragraph (A).

19 “(D) NOTIFICATION.—

20 “(i) EXCEPTION.—Subparagraph
21 (B)(ii) shall not apply if a registered open-
22 end investment company or transfer agent
23 acting on behalf of such company reason-
24 ably believes that an individual required to
25 be notified under such subparagraph is,

1 has been, or will subject the security holder
2 who identified such individual under sub-
3 section (h)(2)(A) to financial exploitation.

4 “(ii) REASONABLE EFFORTS.—An
5 open-end investment company or transfer
6 agent acting on behalf of such company
7 shall be considered in compliance with sub-
8 paragraph (B)(ii) if such company or
9 transfer agent makes a reasonable effort to
10 contact the individuals specified by a secu-
11 rity holder under subsection (h)(2)(A).

12 “(E) INTERNAL PROCEDURES.—An open-
13 end investment company or transfer agent act-
14 ing on behalf of such company shall establish
15 procedures to carry out the requirements under
16 this subsection, including procedures—

17 “(i) related to the identification and
18 reporting of matters related to the finan-
19 cial exploitation of specified adults;

20 “(ii) to determine whether to release
21 or reinvest delayed redemption proceeds,
22 taking into account the facts and cir-
23 cumstances of each case, should the inter-
24 nal review under subparagraph (B)(iii)

1 support the reasonable belief described in
2 subparagraph (B)(i);

3 “(iii) identifying each employee of the
4 company or transfer agent with authority
5 to establish, extend, or terminate a period
6 described in paragraph (1) or subpara-
7 graph (A);

8 “(iv) in the case of a transfer agent,
9 that are reasonably designed to ensure that
10 the employees of such transfer agent com-
11 ply with this subsection; and

12 “(v) in the case of an open-end invest-
13 ment company, establishing periodic re-
14 porting requirements under which a trans-
15 fer agent acting on behalf of such company
16 shall notify such company of—

17 “(I) each extension under sub-
18 paragraph (B) authorized by such
19 transfer agent;

20 “(II) each finding by the transfer
21 agent under subparagraph (B)(i);

22 “(III) each notification under
23 subparagraph (B)(ii) carried out by
24 such transfer agent; and

1 “(IV) the results of each internal
2 review initiated by the transfer agent
3 under subparagraph (B)(iii).

4 “(F) INFORMATION INCLUDED IN CERTAIN
5 STATEMENTS.—An open-end investment com-
6 pany shall include in each prospectus or state-
7 ment of additional information a notification
8 that the company or transfer agent acting on
9 behalf of such company may postpone redemp-
10 tion of certain securities under this subsection.

11 “(G) RECORD RETENTION.—An open-end
12 investment company or transfer agent acting on
13 behalf of such company shall—

14 “(i) document and retain records of—

15 “(I) each postponement of re-
16 demption under subparagraph (A),
17 (B), and (C);

18 “(II) each finding under subpara-
19 graph (B)(i);

20 “(III) the name and position of
21 each employee described in subpara-
22 graph (E)(iii);

23 “(IV) each notification carried
24 out under subparagraph (B)(ii); and

1 “(V) the results of each internal
2 review initiated under subparagraph
3 (B)(iii); and

4 “(ii) make such records available to
5 the Commission at the request of the Com-
6 mission.

7 “(3) SPECIFIED ADULT DEFINED.—In this sub-
8 section, the term ‘specified adult’ means—

9 “(A) an individual age 65 or older; or

10 “(B) an individual age 18 or older who a
11 registered open-end investment company or a
12 transfer agent acting on behalf of such com-
13 pany reasonably believes has a mental or phys-
14 ical impairment that renders the individual un-
15 able to protect the individual’s own interests.”.

16 (b) RECOMMENDATIONS.—

17 (1) IN GENERAL.—Not later than 1 year after
18 the date of the enactment of this section, the Securi-
19 ties and Exchange Commission, in consultation with
20 the entities specified in paragraph (2), shall submit
21 to Congress a report that includes recommendations
22 regarding the regulatory and legislative changes nec-
23 essary to address the financial exploitation of secu-
24 rity holders who are specified adults (as defined in
25 subsection (i)(3) of section 22 of the Investment

1 Company Act of 1940 (15 U.S.C. 80a–22), as added
2 by this section).

3 (2) CONSULTATION.—The entities specified in
4 this paragraph are as follows:

5 (A) The Commodity Futures Trading
6 Commission.

7 (B) The Director of the Bureau of Con-
8 sumer Financial Protection.

9 (C) The Financial Industry Regulatory Au-
10 thority.

11 (D) The North American Securities Ad-
12 ministrators Association.

13 (E) The Board of Governors of the Fed-
14 eral Reserve System.

15 (F) The Comptroller of the Currency.

16 (G) The Federal Deposit Insurance Cor-
17 poration.

Passed the House of Representatives January 30,
2023.

Attest: CHERYL L. JOHNSON,
Clerk.