

MEMO# 31828

June 27, 2019

SEC Staff Clarifies the Pricing of Securities in Connection with Investment Companies' Use of Check Hold Periods

[31828]

June 27, 2019 TO: Operations Committee

Transfer Agent Advisory Committee RE: SEC Staff Clarifies the Pricing of Securities in Connection with Investment Companies' Use of Check Hold Periods

In 2018, the SEC's Office of Compliance Inspections and Examinations (OCIE) raised an issue relating to the pricing of mutual fund shares redeemed during a fund's check hold period. To ensure that our members are pricing redeemed shares consistently with Section 22(e) and Rule 22c-1 under the Investment Company Act, we reached out to the SEC staff to seek their assistance in drafting a memo to ICI's members to clarify this issue. The resulting memo, which reflects the views of the SEC's staff, is attached.

In summary, but as discussed more fully in the attached memo, the staff has clarified that:

- The prospectus of any fund that imposes a hold on redeeming shares purchased with a check must include clear and complete disclosure of (1) the fund's check hold policies, including when they apply, how long they last, and how they will impact a shareholder's ability to redeem shares purchased with a check; and (2) how shareholders may unconditionally purchase fund shares to avoid the fund's check hold period (*i.e.*, how shareholders may purchase shares without writing a check);
- A fund must have appropriate policies and procedures that govern the processing of redemption requests received in good order during a check hold period, including policies that govern how it will price the redeemed shares; and
- Consistent with Section 22(e) and Rule 22c-1, a fund must ensure that a shareholder redeeming shares purchased with a check receives the net asset value (NAV) next calculated after the redemption request is received in good order, even if the processing of the order is delayed due to a check hold period.[\[1\]](#)

We hope this clarification resolves any uncertainty members have about this issue.

Joanne Kane
Director, Operations & Transfer Agency

Tamara K. Salmon
Associate General Counsel

[Attachment](#)

endnotes

[\[1\]](#) This likely will result in the fund using “as of” pricing to ensure the shareholder gets the appropriate price.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.