

MEMO# 30436

November 30, 2016

Evaluating Swing Pricing: Operational Considerations White Paper

[30436] November 30, 2016 TO: Bank, Trust and Retirement Advisory Committee
Broker/Dealer Advisory Committee
Chief Compliance Officer Committee
Chief Risk Officer Committee
Compliance Advisory Committee
Internal Audit Advisory Committee
Operations Committee
Securities Operations Advisory Committee
Small Funds Committee
Transfer Agent Advisory Committee RE: Evaluating Swing Pricing: Operational Considerations White Paper

We are pleased to announce the publication of a new white paper, Evaluating Swing Pricing: Operational Considerations. As you are aware, on October 13, 2016, the Securities and Exchange Commission (SEC) amended Rule 22c-1 of the Investment Company Act of 1940 to permit, but not require, mutual funds (except for money market funds) to use swing pricing.[\[1\]](#) The SEC believes that swing pricing could be an effective tool in mitigating potential shareholder dilution, and may be an additional tool to manage a fund's liquidity risk.

Implementing swing pricing will require a fund to address and overcome significant operational hurdles, and doing so is likely to be complex and multifaceted. ICI developed this white paper to assist funds that may be considering whether implementation of swing pricing is feasible. Funds considering whether or not to use swing pricing should follow a careful and deliberate analysis of their business model, possible effects on their intermediary partners, and the impact on their shareholder base.

The paper covers the following topics:

- Background – discusses the purpose of the paper in light of the SEC's amendments to rule 22c-1 of the Investment Company Act of 1940 to permit, but not require, mutual funds to use swing pricing.
- What is swing pricing – discusses swing pricing as a means of enabling funds to more equitably allocate portfolio transaction costs attributable to large shareholder purchase or redemption orders. As well as the high level mechanics of swing pricing as part of a fund's valuation process.

- Summary of SEC's swing pricing rule amendments – provides a high level summary of key provisions of the SEC's swing pricing rule amendments.
- Use of swing pricing in Europe – discusses the use of swing pricing in Europe and why practices employed in Europe may not easily be replicated in the United States.
- Benefits and disadvantages of swing pricing– discusses the potential benefits and disadvantages of swing pricing from the SEC and fund's perspectives.
- Operational impediments to swing pricing in the United States – discusses the need for funds to obtain timely and reasonably accurate daily fund flow information along with the challenges and obstacles of obtaining such data.
- Operational Considerations: Can You Make Swing Pricing Work– discusses various steps and exercises funds may consider undertaking to assist in determining the feasibility and value of swing pricing.

Questions or comments on the white paper may be directed to Joanne Kane at the ICI (joanne.kane@ici.org, 202-326-5850). We hope you find this paper beneficial as you discuss the viability of swing pricing with your internal colleagues, fund management, board of directors and intermediary partners.

Martin A. Burns
Chief Industry Operations Officer

[Attachment](#)

endnotes

[1] *Investment Company Swing Pricing*, SEC Release No. IC-32316 (Oct. 13, 2016), available at www.sec.gov/rules/final/2016/33-10234.pdf. For a detailed summary of the final amendments, see [Institute Memorandum No. 30333](#), dated October 21, 2016.

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