

**MEMO# 9969**

May 27, 1998

## **MUTUAL FUND PRICING IN THE EVENT OF AN EARLY MARKET CLOSING**

1 Memorandum to SEC Rules Committee No. 16-98, dated February 25, 1998. [9969] May 27, 1998 TO: SEC RULES COMMITTEE No. 49-98 RE: MUTUAL FUND PRICING IN THE EVENT OF AN EARLY MARKET CLOSING

As discussed below, attached for your review is a draft letter to the SEC recommending an amendment to Rule 22c-1 under the Investment Company Act that would address mutual fund pricing in the event of an early market closing. Please provide me with any comments on the draft letter by Wednesday, June 3rd. I can be reached by phone at (202) 326-5822, by fax at (202) 326-5827, or by e-mail to frances@ici.org. On October 27, 1997, market volatility triggered the New York Stock Exchange's circuit breakers and the market closed early (at approximately 3:30 p.m. eastern time). Different fund groups followed different approaches to pricing purchase and redemption orders received between 3:30 and 4:00. As a result, some investors received that day's price and others received the next day's price. At the last meeting of the SEC Rules Committee, we reported that the Institute's Board of Governors and Executive Committee had concluded that the industry should seek to avoid such a result in the future. They directed the Institute to work with members to develop a uniform approach to pricing orders received after an early market close but before the normal market closing time of 4:00 p.m. Following the last Rules Committee meeting, we solicited volunteers to serve on an Early Market Closing Task Force for this purpose.<sup>1</sup> The Task Force met on April 9th. An overwhelming majority of Task Force members recommended that, in the event the market closes before a mutual fund's normal time of pricing (e.g., 4:00 p.m.), the fund should price its shares as of the time the market closes, and purchase or redemption orders received after that time should get the next day's price. The Institute's Executive Committee endorsed this recommendation at its meeting on May 5th. We believe that implementation of the proposed approach throughout the industry would best be accomplished through an amendment to Rule 22c-1. Accordingly, attached for your review is a draft letter to the SEC's Division of Investment Management proposing an amendment to Rule 22c-1 that would require that, in the event the market closes before a fund's designated time of pricing, the fund must price its shares as of the time the market closes and must cut off purchase and redemption orders as of that time. Frances M. Stadler Deputy Senior Counsel Attachment

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