

MEMO# 6057

July 20, 1994

ICI LETTER OF RESPONSE TO SEC CHAIRMAN ARTHUR LEVITT'S REQUEST FOR INFORMATION ON FUND PRICE REPORTING

1SEC ICI Memorandum to Board of Governors No. 56-94, Accounting/Treasurers Committee No. 35-94, Direct Marketing Committee No. 15- 94, Industry Statistics Committee No. 11-94, Marketing Policy Committee No. 26-94, Members - One Per Complex No. 41-94, Operations Committee No. 13-94, Public Information Committee No. 22-94, Sales Force Marketing Committee No. 22-94, SEC Rules Committee No. 70-94, Shareholder Communications Committee No. 15-94 July 20, 1994 TO: ACCOUNTING/TREASURERS COMMITTEE NO. 39-94 BOARD OF GOVERNORS NO. 61-94 DIRECT MARKETING COMMITTEE NO. 19-94 INDUSTRY STATISTICS COMMITTEE NO. 13-94 MARKETING POLICY COMMITTEE NO. 31-94 MEMBERS - ONE PER COMPLEX NO. 49-94 OPERATIONS COMMITTEE NO. 16-94 PUBLIC INFORMATION COMMITTEE NO. 24-94 SALES FORCE MARKETING COMMITTEE NO. 25-94 SEC RULES COMMITTEE NO. 80-94 SHAREHOLDER COMMUNICATIONS COMMITTEE NO. 17-94 RE: ICI LETTER OF RESPONSE TO SEC CHAIRMAN ARTHUR LEVITT'S REQUEST FOR INFORMATION ON FUND PRICE REPORTING _____ As

we previously informed you, the Institute submitted a letter and briefing paper to SEC Chairman Arthur Levitt on June 28 regarding press coverage of certain price reporting problems. On the same day, the Institute received a letter from Chairman Levitt on this matter.¹ As you may recall, this letter, which was also addressed to the NASD, noted that the Institute and the NASD were working together to develop procedures to eliminate price reporting problems and requested a report on the project as well as an assessment of existing pricing problems in the mutual fund industry. The Institute's July 13 response to Chairman Levitt's letter is attached. The response notes the NASD extended its fund price reporting deadline by 10 minutes to 5:40 p.m. effective July 11, 1994. It also describes proposals that the Institute and other interested parties are pursuing with the NASD to enhance the NASD's fund price reporting system. The proposals contemplate development of a "rolling receipt and dissemination" system that would provide additional time for funds to calculate and perfect daily pricing. The Institute letter also states that the industry has expressed a strong desire to have a solution in place by the end of this year and has strongly encouraged the NASD to dedicate the resources required for this purpose. In assessing existing pricing problems in the industry, the Institute letter emphasizes the importance of distinguishing between price reporting problems and pricing problems. It identifies several factors that can contribute to pricing problems and notes that a fund's pricing review and validation procedures ordinarily will identify and resolve potential problems prior to the deadline for reporting fund prices. It also notes that in the few

instances where incorrect fund prices are reported in the newspapers, shareholder purchase and redemption transactions are ultimately processed at correct prices. Also enclosed for your information is a copy of the NASD's July 13 response to Chairman Levitt's request for information, as well as a letter of response from the NASD responding to an inquiry on the same matter from the Securities Subcommittee of the U.S. Senate Banking Committee. Both letters state the NASD's commitment to work with the mutual fund industry to improve the fund price reporting service. They also note the following additional measures the NASD is considering to facilitate accurate and timely NAV reporting by mutual funds: (1) reexamining its contract with both the funds and reporting services to emphasize the necessity of accuracy in reporting NAV information; (2) considering the addition of a provision in the contract to require mutual funds and reporting services to certify, upon request, the accuracy of their NAVs; and (3) exploring the redesign of its systems to alert the NASD when reported NAVs exceed parameters for a particular fund's history and sector. We will keep you informed of further developments. Matthew P. Fink President Attachment

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.