

MEMO# 16723

October 31, 2003

INSTITUTE RECOMMENDATIONS REGARDING LATE TRADING AND MARKET TIMING

[16723] October 31, 2003 TO: SEC RULES COMMITTEE No. 88-03 PENSION COMMITTEE No. 42-03 OPERATIONS COMMITTEE No. 23-03 ACCOUNTING/TREASURERS COMMITTEE No. 34-03 COMPLIANCE ADVISORY COMMITTEE No. 93-03 RE: INSTITUTE RECOMMENDATIONS REGARDING LATE TRADING AND MARKET TIMING The Institute's Executive Committee has directed the Institute to take the following three specific steps in response to abuses related to trading in mutual fund shares. First, with respect to late trading, the Institute will call for and vigorously support a firm 4:00 p.m. deadline for all mutual fund trades to be reported to the fund or the fund's transfer agent. Second, with respect to market timing, the Institute will call for and vigorously support a mandatory, minimum industry-wide two-percent redemption fee that will apply to the sale of non-money market fund shares that are not held for a minimum of five days following purchase. A narrow exemption should be provided, however, for those funds specifically designed for short-term trading. Third, with respect to personal trading, the Institute will immediately urge all mutual fund advisers to clarify or amend their codes of ethics so that all transactions by affiliated personnel in mutual fund shares sponsored by the adviser are covered by the code. As explained in a memorandum to the Institute's Board of Governors, the Executive Committee recognized that these steps would change some of the fundamental ways in which mutual fund shareholders invest and mutual funds interact with brokers and other intermediaries. The recommendations will require fund companies and intermediaries to make major changes to computer systems and procedures that will take time and financial resources to implement. However, the Committee concluded that the benefits these changes will bring to long-term mutual fund shareholders in terms of enhanced confidence in mutual funds far outweigh the costs of implementation. Keith Lawson Frances M. Stadler Senior Counsel Deputy Senior Counsel Attachment (in .pdf format)