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# Focus on Funds: SEC Liquidity Proposal: Good Goals, Unintended Consequences

Focus on Funds

## SEC Liquidity Proposal: Good Goals, Unintended Consequences

The January 15, 2016, edition of *Focus on Funds* summarizes the Institute's response to the Securities and Exchange Commission's liquidity risk management proposal.

### Transcript

**Stephanie Ortbals-Tibbs, ICI Director, Media Relations**: The fund industry is closely watching a proposal from the U.S. Securities and Exchange Commission that would change the way funds approach liquidity management. I spoke with ICI General Counsel David Blass as ICI filed its response to the SEC. He outlined our concerns as well as our strong support for their idea.

**David Blass, ICI General Counsel**: We've expressed very strong support to the SEC to adopt a liquidity management program. We do have some issues with some elements of the proposal, especially the highly prescriptive liquidity classification approach that the SEC proposed and the three-day liquidity minimum, which have really problematic aspects to them.

**Ortbals-Tibbs**: David, in the letter you outline a number of concerns focused on the fund liquidity proposal, the classifications or so-called buckets.

**Blass**: Sure, so we view that liquidity classification approach, which requires funds to analyze their portfolios or classify their portfolios in the six different categories as highly subjective and as a facial appearance of being an objective comparable liquidity classification but in fact, it's very subjective and we do worry quite a bit and express concern in our letter that it could lead to actually introducing new risks into the fund space, including by making funds more homogenous in their investment profile. Where we have issues with the SEC proposal, provide alternative approaches, we do think there could be a benefit to funds classifying their portfolios using some form of liquidity classification, but we think that funds should be permitted to use tried-and-true approaches that implement sound risk management principles, which regrettably, the SEC's proposal doesn't do.

**Ortbals-Tibbs**: In the letter you also talk a good deal about the SEC's proposal for a three-day minimum liquidity level.

**Blass**: On the three-day liquidity minimum, again, we support funds' adoption of a target for liquidity; the problem with the SEC's proposal is it really impacts portfolio management and could result in funds not being able to buy assets in an attractive market condition or reducing the liquidity in certain market conditions.

**Ortbals-Tibbs**: So David, this really is a big issue and it's one that ICI will continue to be very engaged in for some time to come.

**Blass**: Well, we've been very fortunate to have a group of I think about 50 fund complexes that have lent support through their chief risk officers or senior portfolio managers. We've consulted very closely with our working group—Liquidity Management Working Group—and we certainly encourage greater dialogue at the SEC with the ICI and with our Liquidity Management Working Group as the SEC moves forward on this rule proposal.

## Additional Resources

- Release: ICI Supports Establishing Formal Liquidity Risk Management Programs for Funds
- *ICI Viewpoints*: Liquidity Risk Management Must Be Done Right
- *ICI Viewpoints*: The SEC's Liquidity Proposal: Good Goals, Unintended Consequences
- Frequently Asked Questions About Mutual Fund Liquidity
- Financial Stability Resource Center
- Quick Take: ICI Response to SEC's Liquidity Management Proposal

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