VIDEO

October 2, 2015

Focus on Funds: First Take on Proposed Liquidity Management Rules

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The October 2, 2015, edition of *Focus on Funds* offers an initial analysis of the SEC's new rule proposal on mutual fund and exchange-traded fund (ETF) liquidity management.

Transcript

Stephanie Ortbals-Tibbs, ICI Director, Media Relations: Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

The Securities and Exchange Commission has recently voted out a new rule proposal governing fund liquidity and I spoke ICI General Counsel David Blass to get his initial thoughts.

David, can we begin by talking about this rule proposal and who's affected? Who does this encompass?

David Blass, ICI General Counsel: So the rule proposal would affect mutual funds (other than money market funds), and open-end ETFS—so ETFs other than UITs.

Ortbals-Tibbs: And there's a lot in this new proposal and it is fresh out, but what are some of the top-line things that you're starting to look at?

Blass: Well, it is fresh out, it was proposed last week, so we're still in the analysis phase but you're absolutely right, there is a lot there for members to focus on. One: members, the mutual funds, and the ETFs that are affected would need to categorize their entire portfolio holdings along liquidity lines. So there are six categories that they would have to apply to every one of the instruments in their fund based on the number of days it would take to convert that instrument into cash. Second: the funds would need to have a minimum liquidity holdings, so they would need to set a percentage of their portfolio for minimum liquidity and have cash or instruments that can be converted quickly into cash to meet that percentage. And then third, there's a really novel concept that was proposed that's voluntary. It's called swing pricing. That's very common in Europe but not at all here in the United States. The SEC would allow funds to use swing pricing, which is a technique to adjust net asset value on days there are heavy redemptions or heavy purchases so that the redeeming or purchasing shareholders pay the transaction costs associated with that.

Ortbals-Tibbs: So not a light lift to be looking through this; it'll take some time. There will be a set of comments sent from the ICI back to the SEC this winter?

Blass: That's right, the SEC gave us 90 days to comment on the proposal. It'll take that amount of time for us to analyze, work with members, and go back to the SEC with a comment letter, which we certainly will do.

Ortbals-Tibbs: What's interesting is that during the same week that the SEC was acting, the *Wall Street Journal* decided to run a whole series of articles asking questions around fund liquidity and it looks like, in the end, that might've been a bit premature.

Blass: You're absolutely right, the authors of that article would've done well to have waited to see what the SEC came out with because the SEC described a test that's far, far different than the fairly simplistic one that the *Journal* came up with.

Ortbals-Tibbs: That's this week in funds. See you next week.

Additional Resources

- Frequently Asked Questions About Mutual Fund Liquidity
- ICI Statement on SEC Action on Liquidity Risk Management Programs for Mutual Funds
- *ICI Viewpoints*: The Wall Street Journal's Dangerous Disservice to Investors
- Financial Stability Resource Center
- *ICI Viewpoints*: SEC Chairman White Affirms Agency Has Tools to Address Risk in the Industry
- *ICI Viewpoints*: Does Liquidity in ETFs Depend Solely on Authorized Participants?