

LETTERS TO THE EDITOR & RESPONSES

February 6, 2004

Letter to The Hill re Clear Errors in Op-Ed by Market Timing Association Representative

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The Hill
733 Fifteenth Street NW
Suite 1140
Washington, DC 20005

To the Editor:

In light of the level of concern about trading abuses involving mutual funds, factually accurate commentary about effective solutions would be welcomed by just about everyone. It is disappointing that a February 5th column in The Hill ("Proposed Reforms For Mutual Funds Would Hurt Individual Investors") failed to meet this standard.

Since they represent professional market timers, the column's authors should know the rules governing the rapid fire trading style they champion. Yet they make the astonishing assertion that mutual fund redemption fees, used by some funds when shares are sold shortly after they were first bought, are paid to mutual fund managers, and suggest this is the reason the fund industry strongly supports them. They could not be more wrong. Redemption fees are not paid to fund managers, to brokers, or to anyone else. They are reinvested in the fund and effectively reimburse the fund's long term shareholders for the costs created by market timers' short-term trading.

Mutual fund redemption fees protect typical investors the way fines for recklessly using automobiles protect typical drivers. Deterring needless and costly abuse is why the SEC has said it will soon propose a mandatory 2 percent redemption fee for trades made within five days of an original investment. It's also why H.R. 2420, as passed by the House in December, allows mutual fund redemption fees to exceed 2 percent when necessary. The ICI strongly supports both initiatives.

In trying to undermine redemption fees, the authors oversell another tool to combat abusive trading. No one would be happier than mutual fund companies if the process known as "fair value" pricing could prevent all abusive market timing. But as a Morningstar analyst has noted, fair value pricing is "no panacea." The ICI strongly supports fair value pricing, but it remains an inexact science whose inherent subjectivity involves risks of its

own.

Perhaps most dishearteningly, the column alleges that the ICI's reform proposals are designed to give institutions an advantage over individuals. The opposite is in fact the case. We are committed to significantly strengthening protections for individual "buy-and-hold" investors against traders like hedge funds, arbitrageurs and abusive market timers.

Neither policymakers nor mutual fund investors are served by erroneous and misleading arguments that advance stealth agendas designed to block needed and effective reforms. The ICI pledges to continue the hard work of supporting meaningful and enduring policy changes that offer real hope of renewing widespread confidence in mutual funds.

Sincerely,

Matthew P. Fink
President

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