

LETTERS TO THE EDITOR & RESPONSES

November 19, 2003

Letter to WSJ Cautions that Fair Value Pricing is Valuable But "No Panacea"

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The Editors
The Wall Street Journal
200 Liberty Street
New York, New York 10281

Dear Editors:

You're not alone in believing that "fair value" pricing will help prevent future trading abuses involving mutual funds. ("The Price of Mutual Funds," Nov. 19). Mutual fund companies strongly agree. Fund managers can use fair value pricing to shrink the temporary pool of profits that arbitrageurs try to snatch from long-term mutual fund investors.

That said, I note that past Journal editorials have rightly warned about succumbing to the desire for quick fixes. With investigations and headlines abounding, no one would be happier than mutual fund companies if fair value pricing alone could prevent all abusive short-term trading. But that's not a reasonable expectation.

Fair value pricing is a very valuable tool. But as a Morningstar analyst and other experts have cautioned, it's "no panacea." Why? Because it involves replacing objective calculations with subjective ones. Ideally, all securities prices should be based on objective market data. By design, fair valuation requires departing from the use of such data. Because of this, most observers conclude that fair value pricing, while important, needs to be accompanied by other techniques if we are to successfully thwart abusive short-term market timing.

You acknowledged that short-term redemption fees (the proceeds of which go to fund shareholders, not fund managers) and trading restrictions will make abusive trading "less profitable." Like fair value pricing, neither is a complete answer. We hope policymakers embrace all three approaches – fair value pricing, redemption fees and trading restrictions. Moreover, these techniques should be accompanied by continued vigorous enforcement of the securities laws to protect fund shareholder interests.

SEC Chairman Donaldson told Congress this week that he is actively considering these ideas, and others too. We strongly support the efforts of the Commission and the Congress to restore investor confidence in mutual funds and the system of fund regulation so that

these horrifying abuses never occur again.

Sincerely,

Matthew P. Fink
President

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