

Mutual Fund Task Forces Directed to Address Late Trading and Abusive Short-Term Trading, October 2003

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ICI Chairman Says “Everything Is On the Table” In Protecting Mutual Fund Shareholders

Washington, DC, October 3, 2003 - The Investment Company Institute’s Board of Governors today directed two separate Board task forces to swiftly identify specific options—whether through government regulation, industry best practices, or both—that will forcefully and effectively address the issues of late trading and abusive short-term trading involving mutual fund shares and how to make sure the interests of fund shareholders always come first. In doing so, the Board specifically instructed each task force to work with the SEC, NASD, and other regulators to determine how best to implement the five-part regulatory [action plan](#) SEC Chairman Donaldson outlined in Congressional [testimony](#) on September 30:

1. Pursue measures to prevent the circumvention of forward-pricing requirements for fund shares and market timing restrictions,
2. Require funds to have written policies and procedures to address short-term trading in their shares,
3. Require improved disclosure regarding market-timing procedures,
4. Provide funds with additional tools to deter market-timing activity, and
5. Address concerns related to the selective disclosure of fund portfolio information.

“The Board is committed to ensuring that mutual fund shareholders always come first,” said ICI Chairman Paul G. Haaga, Jr. “The Board recognizes that new regulatory requirements must be considered, and pledges to work constructively and expeditiously with regulators in any manner they deem useful. Everything is on the table to protect mutual fund shareholders.”

Among the options to be considered by the task force on late trading will be procedural and technological requirements to provide greater assurance that the mutual fund trades reported by broker-dealers and other intermediaries were all placed by fund investors before 4 p.m. to receive the current day’s price. Another option could be to require that all trades be received by the fund company by 4 p.m. to receive the current day’s price. Either approach could help accomplish Chairman Donaldson’s goal of “prevent[ing] the circumvention of” longstanding mutual fund pricing requirements.

Among the options to be considered by the task force on abusive short-term trading will be the recommendations Chairman Donaldson specified in his Senate testimony last week. These include mandating that all mutual funds establish clearly written policies and procedures approved by the fund’s independent directors. The task force will also consider whether to seek permission from the Securities and Exchange Commission for immediate authority to impose redemption fees greater than 2 percent (as long as the fees collected are returned to the fund) and to permit “split exchanges” if excessive short-term trading is suspected.

The Board directed the task forces to consider views of interested parties in addition to mutual fund companies, and to promptly report their findings to the Board. ICI Chairman Haaga will transmit these findings to the SEC, other regulators, and government officials immediately thereafter.

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