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# ICI Comments on SEC Swing Pricing/LRM Proposal

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## BY THE NUMBERS

# Impact on Retail Investors

**100+ MILLION**

Number of American investors impacted by the SEC's mandatory swing pricing proposal

**69 percent**

Percentage of all mutual funds held by middle-class families

**<\$150,000**

Average annual household income of mutual fund owners impacted by the SEC's proposal

**2,800+**

Number of comments the SEC received on this proposed rule from retail investors asking the agency to re-evaluate the proposal

# Mandated Swing Pricing Is a Solution in Search of a Problem

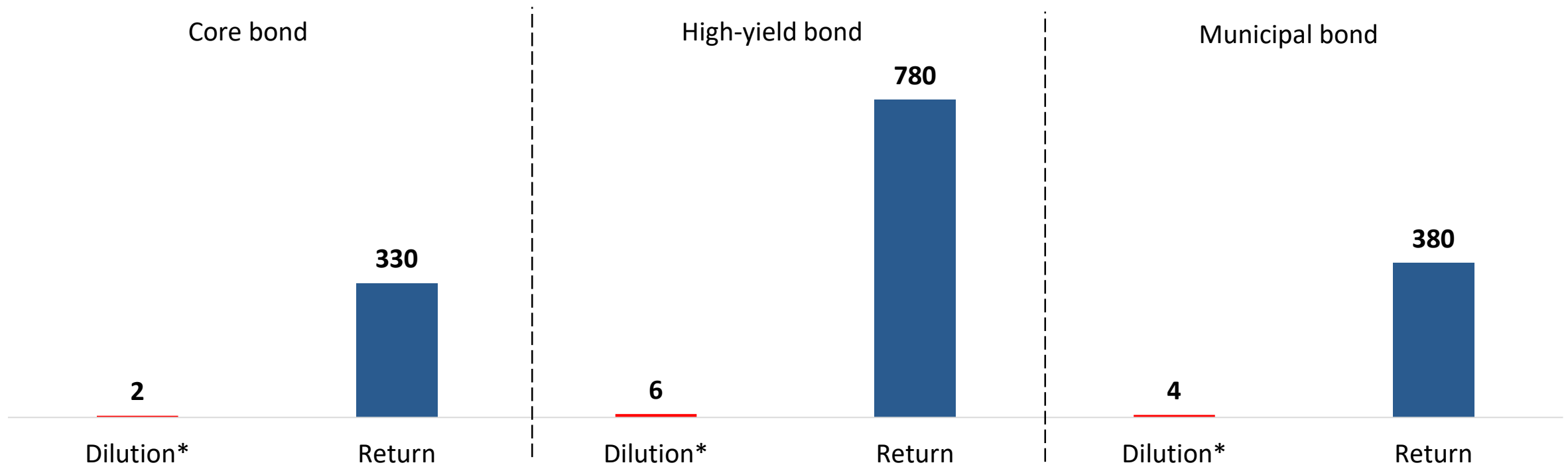
- The SEC's proposed mandate would force *all* mutual funds to 'swing' their price
- This would fundamentally change how mutual funds are priced—as well as how investors purchase and sell their shares with a hard close
- Proposal's rationale is built on minimizing '*dilution*' which it hypothesizes creates a first-mover advantage that in turn can result in fire sales—yet the SEC proposal lacks detail or supporting evidence
- **Key Takeaway:** The proposal's prescriptive requirements are ill-suited and harmful to investors

# Reality Check on Dilution

- Estimated daily dilution for US mutual funds is far too small—typically just hundredths or tenths of a basis point per day—to incentivize shareholders to redeem heavily
- Moreover, dilution is swamped by the daily ups and downs of the markets.
- **Key takeaway:** The data simply do not support the proposal's swing pricing mandate

# Hard to See That Dilution Is a Motivating Factor to Redeem From Bond Mutual Funds

Annual average in basis points, 2009–2022

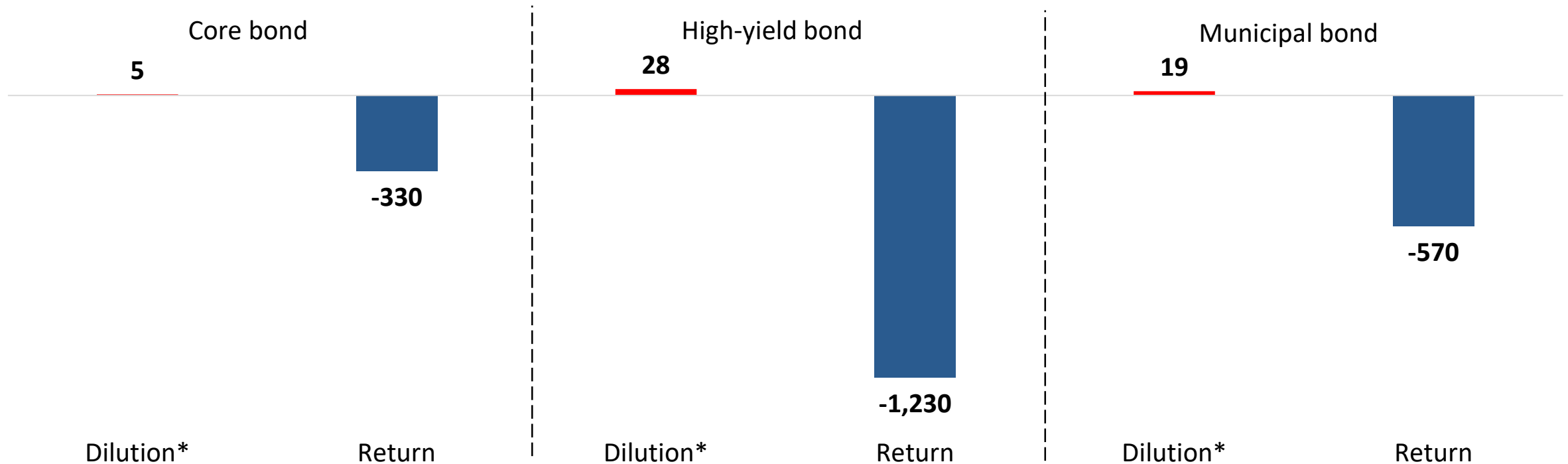


\*ICI estimates based on model from Choi, Kronlund, and Oh (2022).

Source: ICI calculations of Morningstar and Refinitiv data. See Figure 2.3 of “ICI Comment Letter on Open-End Fund Liquidity Risk Management Programs and Swing Pricing” at [www.ici.org/system/files/2023-02/23-cl-sec-liquidity-proposal.pdf](https://www.ici.org/system/files/2023-02/23-cl-sec-liquidity-proposal.pdf).

# Even in March 2020, Was Dilution *Really* a Consideration For Bond Mutual Fund Investors?

Total estimated dilution and return, basis points, March 2020



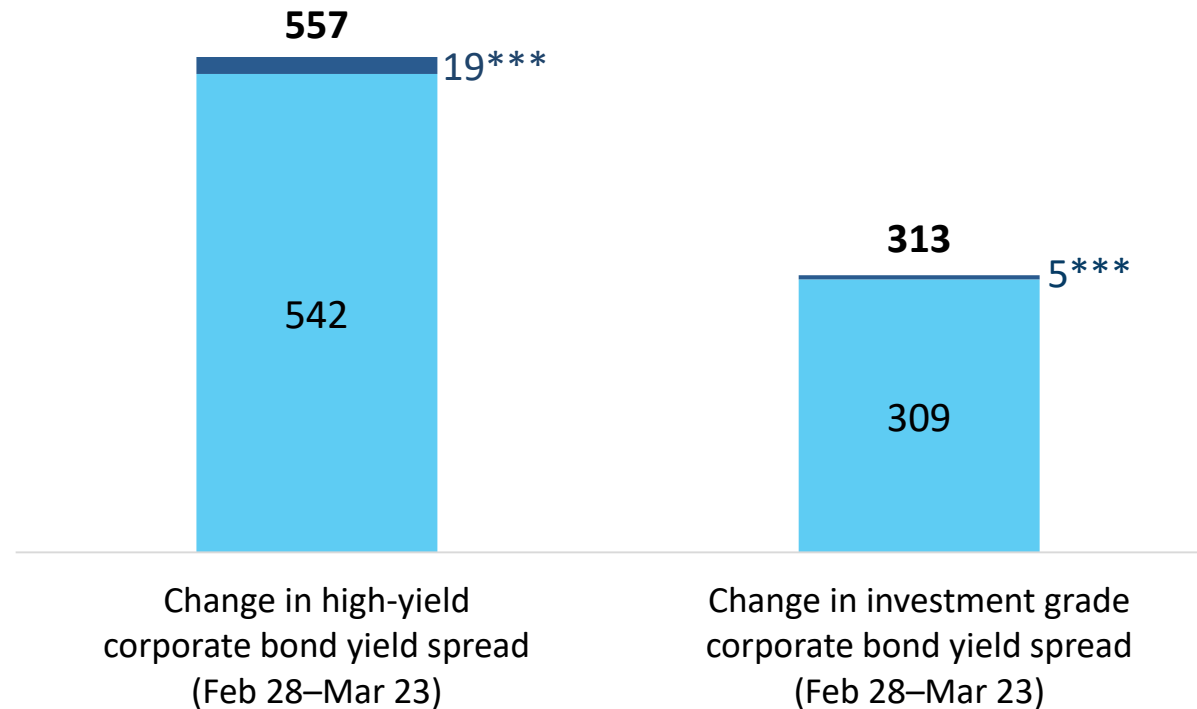
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# Mutual Funds' Net Sales of Corporate Bonds in March 2020 Had Little Effect on Bond Markets

Change in yield spread, basis points, March 2020

- Due to bond mutual funds' net sales of bonds
- Due to other factors (e.g., market volatility, sales by other market participants)



\*\*\* indicates that the regression coefficients used to estimate the influences of bond funds' net sales of high-yield and investment grade corporate debt are statistically significant at the 1 percent level.

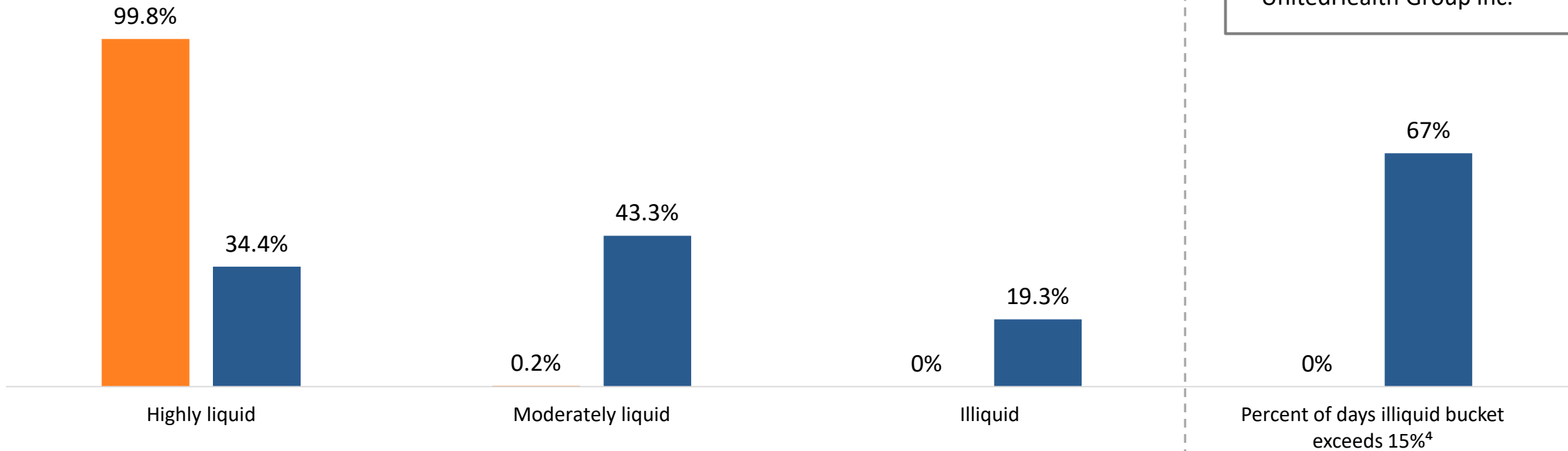
Note: In the figure, the heights of the bars for high-yield and investment grade bonds are changes in yield spread.

Source: ICI calculations of ICI bond mutual fund survey, Refinitiv, TRACE, and Federal Reserve Bank of St. Louis FRED data. See Figure 2.7 of "ICI Comment Letter on Open-End Fund Liquidity Risk Management Programs and Swing Pricing" at [www.ici.org/system/files/2023-02/23-cl-sec-liquidity-proposal.pdf](http://www.ici.org/system/files/2023-02/23-cl-sec-liquidity-proposal.pdf).

# Proposed LRM Bucketing Scheme Will Confuse Investors By Making Highly Liquid Funds Look “Illiquid”

Proposed bucketing scheme<sup>1</sup> conducted on an actively managed US-focused large cap equity mutual fund with between \$125 billion to \$175 billion in assets

■ Estimated current bucketing<sup>2</sup> ■ Estimated proposed bucketing<sup>3</sup>



**Examples of large cap stocks deemed “illiquid”:**  
 Broadcom Inc.  
 Comcast Corp.  
 CVS Health Corp  
 UnitedHealth Group Inc.

<sup>1</sup>Bucketing exercise was conducted daily on US equity holdings from the fund’s quarterly public N-PORT holdings from late 2019 to early 2023.

<sup>2</sup>Current bucketing was estimated with trade size proxied by the fund’s March 2020 flows for the trade size assumption and the proposed average daily trading volume requirements.

<sup>3</sup>Proposed bucketing was estimated using the proposed 10% trade size and average daily trading volume requirements.

<sup>4</sup>Fund had 805 trading days in the analysis.

Source: ICI calculations of SEC Form N-PORT, Refinitiv, and Morningstar Direct data



# Consequences of Swing Pricing/LRM Proposal

- Swing pricing and hard close: Extremely costly to implement and confusing and disruptive for investors—all to save them a few basis points (?)
- LRM bucketing scheme: Will create anomalous outcomes, reduce returns, increase expense ratios, and give investors unwelcome tax bills
- **Key takeaway:** The proposal severely harms mutual funds, a 99-year-old, trusted investment product used by 100 million American investors to save for their future