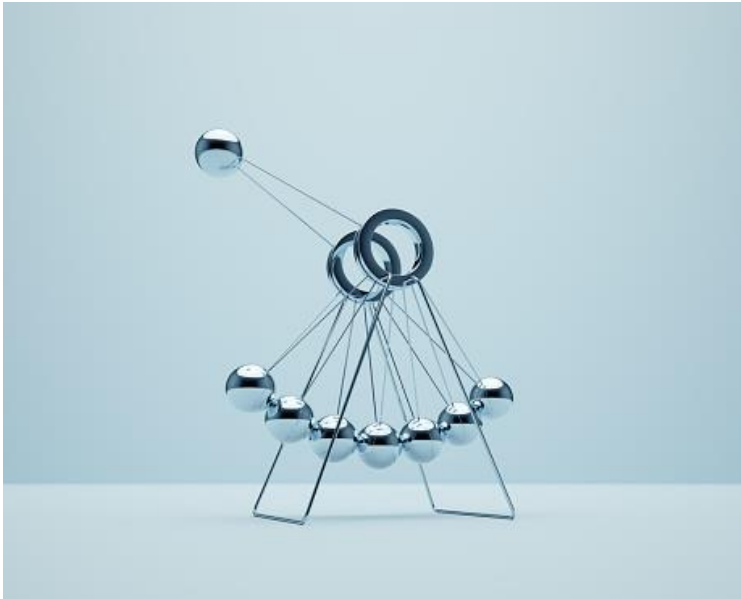




## SEC Unveils “Swing Pricing” Proposal for Open-End Funds



the market.

### Public Response to Economic Threat Fuels SEC Proposal

The outbreak of COVID-19 in 2020 instilled a sense of financial fear in market participants. How are humans inherently hardwired to respond to threats? Panic! The fear of an economic crisis in 2020 fueled the act of “panic selling” within the market. Massive volumes of individuals redeemed their market shares, causing the underlying value of large funds to be diluted. At a recent conference hosted by the Investment Company Institute, the SEC proposed swing pricing to combat the adverse effects of fluctuations in buying/selling activity within

### What is Swing Pricing?

When large amounts of people buy and sell at once, a fund's net asset value (NAV) can be diluted. This is due to the cost of such massive volumes of trading as reflected in the price of the underlying fund. Investors who remain in the market are left to bear this burden of price dilution. The goal of swing pricing is to reassign the costs of high-volume trading to those who create the problem of devaluation- the buyers and sellers.

### How Swing Pricing Works

Swing pricing only gets implemented when a fund's number of purchases and redemptions exceeds a maximum threshold. If the SEC enacts the proposal, each share bought or sold will adjust the NAV of a fund by a designated swing factor. As a result, individuals saving up for retirement may be adversely impacted by this pricing mechanism.

### Additional SEC Proposal – Liquidity Limitations

An additional piece of the proposal important to retirement planners is a new set of liquidity classifications. A fundamental right of shareholders is the ability to redeem their shares at any moment in time. This redemption is only possible if funds can quickly turn their assets into cash – a property identified as liquidity. Currently, funds classify into one of four categories depending on the liquidity level that reflects their portfolio. The proposal would not only mandate new minimum liquidity levels for open-end funds but also require an allocation of 10% of a fund's holdings to highly liquid assets.



## **A New Landscape for Retirement Planners**

The SEC hopes to limit future Federal intervention in times of economic instability. During COVID-19, funds had to be bailed out by the Federal Reserve due to an inability to meet the redemption requests of their shareholders.

Stricter liquidity classifications, while being a possible solution, would require many funds to endure a complete structural renovation. This means that illiquid securities frequently used by retirement planners may have to be removed from their fund portfolios.

## **Future Steps: Staying Updated on Policy Reforms**

The goal of the SEC's recent proposal is to protect the funds of long-term investors from dilution, along with preventing federal intervention in times of economic crisis. While some investors will reap the rewards of such policies, these regulations may be detrimental to retirement planners.

Financial policy reforms have occurred throughout history to meet the changing demands of the economy. COVID-19 was just one historical event that led financial institutions to rethink the policies regulating our market. In a continuously evolving economy, new policy proposals must thoroughly be evaluated if those saving for retirement hope to foster a stable financial future.

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