

MEMORANDUM

To: File No. S7-16-15

From: Jennifer R. Porter
Senior Advisor to Chair White
U.S. Securities and Exchange Commission

Date: June 22, 2016

Re: Liquidity Risk Management Programs and Swing Pricing: Release Number IC-31835

On June 22, 2016, Chair Mary Jo White, Andrew (Buddy) Donohue, Jennifer Porter and David Grim met with Thomas Faust, Chairman and Chief Executive Officer, Brian Taranto, Vice President and Chief Administrative Officer, and Maureen Gemma, Vice President and Chief Legal Officer from Eaton Vance.

The purpose of the meeting was to discuss the Commission's proposal on liquidity risk management programs and swing pricing.

Attachment



Assessment of Swing Pricing Proposal

June 2016

Swing Pricing Proposal

- Is deeply, fundamentally and irreparably flawed
- Not an improvement over other available remedies to address flow-related fund costs
- Massive investment to implement across fund industry is unwarranted and unnecessary
- Should be withdrawn

Investor Protection Deficiencies

- Exposes fund shareholders to hidden transaction costs
- Provides investors with misleading information about comparative fund performance
- Inadequate safeguards to prevent overly aggressive use of swing pricing to enhance observed fund returns

Implementation Challenges

- Widespread adoption of swing pricing would require massive retooling of share transaction processes and workflows
- Necessitates coordinated action across broad network of fund service providers and distribution intermediaries
- Major expenditures not reflected in Commission's cost-benefit analysis
- Uneven availability will create marketplace distortions

Other Proposal Shortcomings

- Little or no ability to favorably influence investor behavior due to lack of transparency
- Pricing adjustments prone to errors and second-guessing
- Diversion of swing pricing benefits from fund to other transacting shareholders
- Potential for fraud and abuse

Irresolvable Conflict of Swing Pricing

On the one hand, seeks to . . .

- Protect fund against gaming behaviors
- Avoid creation of market timer profit opportunities

On the other hand, seeks to . . .

- Provide cost transparency to transacting shareholders
- Promote stabilizing shareholder flows

Alternatives to Swing Pricing

Redemption/Purchase Fees

- Are fully transparent
- Do not create market timer opportunities
- Avoid diversion of benefits from fund to other shareholders
- Substantially easier to implement than swing pricing

Alternatives to Swing Pricing

In-Kind Purchases and Redemptions

- Eliminate guesswork and imprecision of setting appropriate charges
- Enhance fund liquidity and help minimize cash drag
- Promote fund tax efficiency
- Infeasible for broadly held mutual funds; in wide use among exchange-traded products

Better Options than Swing Pricing

- More widespread use of mutual fund transaction fees
- Market forces continue to drive demand to shareholder-protective fund structures
 - Exchange-traded funds
 - NextShares™ exchange-traded managed funds