January 13, 2016

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: RIN 3235-AL61; 3235-AL43 Open-End Fund Liquidity Risk Management Programs; Swing Pricing; Re-Opening of Comment Period for Investment Company Reporting Modernization Release

Dear Mr. Fields:

Americans for Financial Reform ("AFR") appreciates this opportunity to comment on the above-referenced proposed rule (the "Proposed Rule") by the Securities and Exchange Commission (the "Commission" or "SEC"). AFR is a coalition of more than 200 national, state, and local groups who have come together to advocate for reform of the financial industry. Members of AFR include consumer, civil rights, investor, retiree, community, labor, faith based, and business groups.[1]

We strongly support SEC action to improve oversight of potential liquidity issues in open-ended funds, and believe that the proposed rule should be adjusted in a number of ways to better achieve that end. Recent years have seen extremely rapid asset growth at fixed-income mutual funds, and even more remarkable growth in assets at 'alternative' funds. As the rule proposal documents, assets in fixed income funds more than doubled from 2008 to 2014, with inflows of over $1.3 trillion, and assets held by open-ended funds pursuing alternative investment strategies increased one thousand fold since 2005. A wide range of commenters, including regulators and academics, have raised concern about possible financial instability created by a disorderly exit from these funds.[2] As certain fixed-income assets such as high-yield debt tend to be significantly less liquid than other classes of assets, and open-ended mutual funds have a statutory requirement to provide redemptions to investors within seven days, inadequate liquidity planning could lead to panic selling and financial contagion, as well as excessive investor losses.

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[1] A list of AFR member organizations is available at http://ourfinancialsecurity.org/about/our-coalition/.

[2] See for example Chapter 3 of International Monetary Fund, "Global Financial Stability Report: Navigating Monetary Policy Challenges And Managing Risks. Chapter 3: The Asset Management Industry and Financial Stability", International Monetary Fund, April, 2015, available at https://www.imf.org/External/Pubs/FT/GFSR/2015/01/pdf/c3.pdf. Office of Financial Research, "2015 Financial Stability Report", Office of Financial Research, December 15, 2015, available at https://financialresearch.gov/financial-stability-reports/2015-financial-stability-report/ . Tarullo, Daniel K., "Thinking Critically About Non-Bank Financial Intermediation", Speech at the Brookings Institution, November 17, 2015, available at http://www.federalreserve.gov/newsevents/speech/tarullo20151117a.htm.

These concerns are not simply theoretical. In our comment to the Financial Stability Oversight Council on asset management risks, we cited evidence that fire sales by bond mutual funds during the financial crisis created harmful effects on both financial markets and real economy investment.[3] More recent work by economists at the Bank of International Settlements has tracked the market impact of fire sales and cash hoarding by emerging market bond funds in response to redemption requests.[4] Economists at the Wharton School have also documented that fixed income funds, particularly those which lack cash reserves, are particularly prone to investor runs that can fuel market instability and leave late-redeeming investors with significant losses.[5]

In recent months, these concerns have moved from academic journal articles to the front pages, with the failure of the Third Avenue Focused Credit Fund, which recently suspended redemptions unexpectedly. This failure was triggered by and also contributed to recent turbulence in the fixed income markets. By all accounts, Third Avenue was holding the great majority of its assets in illiquid distressed debt and had very limited cash reserves, a strategy that can increase returns but at the price of greatly increased risks for investors.[6] The asset mix of the Third Avenue Fund raises the question of whether and how the Commission has been effectively enforcing the long-standing liquidity requirement that a fund hold no more than 15 percent of its assets in 'illiquid' securities or loans.

While the Third Avenue fund may be an outlier in terms of the sheer volume of illiquid assets it holds, evidence also indicates that larger and more significant funds are also testing the bounds of previous SEC guidance on liquidity, and are holding a large fraction of potentially illiquid assets.[7] If such funds come under selling pressure, the need to dispose of such assets could add to market stress in ways that have a negative impact on corporate credit and the real economy, as well as potentially harming investors.

These systemic risk concerns in the fund space certainly do not rise to the level of the systemic risks posed by overleveraged systemically important banks. But they are real and should be a matter of concern for the Commission. In addition to systemic risk concerns, the need to protect investors from disorderly redemptions of open-ended funds holding illiquid assets, as well as

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[3] Americans for Financial Reform, "Comment to FSOC on Asset Management", March 27, 2015, available at http://ourfinancialsecurity.org/wp-content/uploads/2015/03/AFR-Comment-to-FSOC-On-Asset-Management-Docket-FSOC-2014-0001.pdf; Aslan, Hadiye, and Praveen Kumar, "Spreading the Fire: Investment and Product Market Effects of Bond Fire Sales", American Finance Association Conference Paper, January 5, 2015.

[4] Shek, Jimmy, Ilyhock Shim and Hyun Song Shin, "Investor Redemptions and Fund Sales of Emerging Market Bonds: How Are They Related?", BIS Working Paper 509, Bank of International Settlements, August 15, 2015, available at http://www.bis.org/publ/work509.pdf

[5] Goldstein, Itay, Hao Jiang and David T. Ng, "Investor Flows and Fragility in Corporate Bond Funds", Wharton Finance Working Paper, June 25, 2015, available at http://finance.wharton.upenn.edu/~itayg/Files/bondfunds.pdf

[6] Foley, Stephen, "Why Third Avenue Move Unnerved Markets", Financial Times, December 11, 2015.

[7] Wirz, Matt and Tom McGinty, "The New Bond Market: Some Funds Are Not As Liquid As They Appear", Wall Street Journal, September 21, 2015, available at http://www.wsj.com/articles/the-new-bond-market-some-funds-are-not-as-liquid-as-they-appear-1442877805.

regulators' obligation to ensure that that funds satisfy the statutory requirement in the Investment Company Act that redemptions must be provided within seven days, require better oversight of fund liquidity. As mentioned in the Proposed Rule, the Commission has not updated its core requirements for liquidity management at mutual funds since 1992, and over the almost 25 years since those updates took place the size and composition of such funds have changed dramatically.[8] The reconsideration and updating in this Proposed Rule is thus long overdue.

Below, we offer more specific comments on the rule, including some views on the Investment Company Reporting Modernization proposal that has been re-opened for comment.

Overall Assessment of Proposed Rule – Liquidity Planning and Disclosure

In our view, this Proposed Rule lays out a methodology for liquidity provision that is simultaneously too self-regulatory and too complex. This proposal leaves the key backstop limits on liquidity risk -- the definition and level of three day liquid assets and the definition of assets classified as 'illiquid' for purposes of the fund's 15% limit -- to be determined by the funds themselves. The Proposed Rule does require fund management and boards to go through two complex and time-consuming procedures – one procedure for classifying each fund assets into one of seven liquidity buckets, and a second procedure to forecast upcoming redemption demands at the fund and set a corresponding minimum holding requirement for three day liquid assets. But it does not appear to place clear new constraints on actual fund choices.

It is possible that SEC examination and oversight of fund liquidity planning under this proposal will lead the self regulatory approach in this proposal to be effective. But we are concerned that the complexity of the multi-stage process laid out for liquidity planning, the lack of clarity in this proposal concerning stress expectations for the liquidity planning process, and the large number of regulated funds, will make it administratively difficult for the Commission to provide the proper oversight of the process laid out in the Proposed Rule.

Our concerns regarding Commission oversight of this new rule are heightened by the failure of the Commission to adequately enforce its relatively straightforward existing 15% limit on illiquid assets. As SEC Commissioner Kara Stein has stated, over the years this limit "has arguably become more of a compliance exercise than a true restriction."[9] The case of the Third Avenue Fund has added more weight to Commissioner Stein's contention. The Proposed Rule even appears to implicitly acknowledge the extent that the current 15% limit is not having a strong effect, stating that "we understand based on staff outreach that many funds today consider very few, if any, of their portfolio assets to be holdings limited by the 15% guideline".[10] Indeed,

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[8] See Footnote 4 and surrounding discussion CFR 62275
[9] Stein, Kara, "Mutual Funds: The Next 75 Years", Speech at the Brookings Institution, June 15, 2015. Available at http://www.sec.gov/news/speech/mutual-funds-the-next-75-years-stein.html
[10] CFR 62294

the reliance on fund self-regulation in this proposal raises the question as to whether new, stronger guidance expanding assets subject to the 15% limit and aggressive enforcement of that limit might be a simpler and more effective approach than the requirements laid out here.

Unfortunately, the Proposed Rule appears to move in the wrong direction on the 15% illiquid security limit, as it codifies the existing flawed standard under which an asset need only be 'disposed of' within 7 days, not actually settled and converted into cash, in order to avoid classification as an illiquid asset.[11] Since the Investment Company Act requires actual redemption within 7 days, we consider this standard inappropriate and a significant contributor to the weakening of the 15% asset rule over the years. As discussed below, we urge the Commission to strengthen the definition of illiquid assets in the Final Rule.

Despite the criticisms above, the Proposed Rule does have some strengths. We strongly support the requirement for funds to undertake a comprehensive assessment of liquidity risk and future redemption demands, and the extensive Commission guidance concerning components of such an assessment. We hope that this new requirement signals an effort by the Commission to increase awareness and enforcement of liquidity standards in mutual funds. We also strongly support the requirement for funds to hold a minimum quantity of three day liquid assets based on the results of this comprehensive assessment. This three day liquid asset minimum is the major new actual liquidity protection for investors to emerge from this proposal. It provides some assurance of concrete protection that goes beyond a planning procedure alone.[12] However, as funds have discretion to set the minimum its effectiveness will depend on fund-level planning.

Another positive aspect of the rule is the extensive public disclosure of fund assessments of asset liquidity in a structured data format on Form NPORT, with disclosure taking place on an asset level basis. Such disclosure is an important mechanism for both market discipline and regulatory oversight, and should be maintained in the Final Rule.

Overall, however, we believe that the Proposed Rule would benefit from simplifying the requirement to classify individual assets into liquidity buckets, while at the same time lessening the self-regulatory nature of the rule by establishing a stronger role for regulatory guidance. This could be done by easing asset classification requirements for funds, and also establishing a more pro-active role for the Commission and other financial regulatory agencies in determining liquidity classifications for individual assets. Regulatory recommendations should especially

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[11] It is especially striking that the Commission increases the complexity of the Proposed Rule by setting a different and weaker definitional standard for 15% standard assets than for other types of liquidity classifications.

[12] We agree with the statement in the proposal's economic analysis that "the three day liquid asset minimum requirement is a critical element of the proposed liquidity risk management program requirement that is designed to provide investors with increased protections regarding how fund portfolio liquidity is managed" (CFR 62365-62366).

focus on which assets are properly classified as illiquid for purposes of the 15% limit, and which as liquid for the purposes of the minimum required holdings of 3-day liquid assets.

We also believe that the Proposed Rule is unclear as to the nature of the stress assumptions to be used in liquidity risk assessment. Both normal conditions and 'reasonably foreseeable' stressed conditions are contemplated in the definition of liquidity risk, but we find the balance between the two to be unclear. In addition, the role and nature of stress conditions in the classification of assets as either 3 day liquid assets or 15% standard assets is not clear. Liquidity in normal conditions may be completely different from and in some cases negatively correlated with liquidity in certain kinds of stress conditions. We believe that greater input by the financial regulatory community into the process of liquidity classification will be helpful in clarifying expectations concerning the level of market stress to assume in liquidity risk determination.

Our specific recommendations below include:

- **Simplifying Asset-Level Liquidity Classification Procedures:** This could be done by reducing the number of classifications in the asset liquidity spectrum from the current seven to three or four, and simplifying the standards for liquidity classification.

- **Regulators Should Set a Default Baseline For Asset-Level Liquidity Classifications:** Such a baseline liquidity assessment should be a rebuttable recommendation from regulators, that funds would have discretion to diverge from with justification. While the Commission could take the lead in such recommendations, we believe that the Financial Stability Oversight Commission (FSOC) and other financial regulatory agencies should also have input into recommendations for asset-level classifications.

- **Providing Greater Clarity on the Stress Assumed for the Liquidity Planning Process.** This process could also be assisted by regulatory input.

- **Strengthening Standards for Illiquid Assets Subject to the 15% Limit.**

To be clear, it is entirely appropriate that the overall assessment of redemption risk be conducted on a decentralized basis by the funds themselves. None of the above recommendations should be taken to imply that funds should not take a leadership role in this area. The overall liquidity and redemption risk for a fund is dependent on a wide variety of factors which vary greatly across funds and go well beyond the type of assets held. We support the idea that each fund will play the lead role in assessing and managing redemption risk, and that the SEC will provide oversight in a principles-based manner. The risks involved in such principles-based regulation, while real, are more limited than they are in the case of large banks. Unlike large banks, funds can be expected to 'fail' on a regular basis and such failures will usually not pose significant risks to financial stability, although they may harm investors.

However, funds do face a conflict of interest in that less liquid assets often provide higher returns and attract additional investment, increasing short run returns to fund managers. It may be difficult for individual funds to resist pressures to present assets as ‘liquid’ if they are currently rising in value, even if such assets are actually illiquid or may become illiquid in a stressed market. In the aggregate, such behavior can result in both harm to investors and risks to the financial system. Thus, it is important to have a clear regulatory voice in setting limits on acceptable classifications of asset liquidity. In cases where such classifications make it more difficult for open-ended funds to hold particular assets, the assets can still be held by other types of fund structures that do not provide investors with assurances of liquidity.

Below, we describe in more detail our specific recommendations in the area of liquidity planning and disclosure.

Simplifying Asset-Level Liquidity Classification Procedures

The Proposed Rule requires funds to classify assets into one of seven different liquidity categories. These categories are based on the number of days it would take to convert each asset holding into cash at a price that does not ‘materially affect’ the value of the asset. Nine different factors should be considered in this analysis. In addition, funds must determine which assets are illiquid and subject to the 15% limit, based on whether or not the asset could be ‘sold or disposed of’ (not converted into cash) at ‘approximately’ the value ascribed to it by the fund. This means that the fund must make eight sets of determinations regarding individual asset-level liquidity, based on the inherently uncertain prediction of exactly how long it would take to convert an asset into cash with minimal or no price impact. This analysis is in addition to the fund’s requirement to assess and review liquidity and redemption risk, which is the assessment actually used to set the minimum holding of three-day liquid assets.

We are concerned that the scope and complexity of the required analysis may excessively burden fund boards of directors and may actually act to distract fund managers and directors from the assessment of liquidity and redemption risk, which we view as the more important analysis. In addition, due to the inherent uncertainty of future market conditions, and the fact that future liquidity of a specific asset will mostly be determined by overall market conditions and not by the fund’s own strategies, we are concerned that the utility of this classification exercise may be limited. Given that these estimates are unavoidably approximate, we also feel that it is useful to avoid a false precision in liquidity estimates.

Since the assessment of overall liquidity risk does require some assessment or estimate of asset-level liquidity, we do not favor eliminating an asset level classification requirement entirely. But we do recommend simplifying it to ease the analytic burden on funds.

The requirement could be simplified by:

- Reducing the seven asset liquidity classifications to four. For example, assets could be classified as liquid, somewhat liquid, illiquid, or very illiquid, corresponding to an expected liquidation time of 0-3 days, 4-7 days, 8-15 days, and over 15 days.

- Lessening the requirement that the asset sale does not 'materially affect the value of the asset' immediately prior to sale. This could be replaced by a requirement that the asset could be sold at a price that does not create harm to fund shareholders due to the fund being forced to accept disadvantageous terms of sale in order to find a buyer.

- Permitting liquidity classification based on the totality of facts and circumstances, rather than requiring funds to obtain data on each of the factors listed in the Proposal. The factors listed in the proposal could continue to be useful as guidance.

- Creating a greater role for regulators in recommending liquidity classifications for fund assets, and encouraging funds to rely on these recommendations absent a reason for divergence (this recommendation is discussed further in the next section).

Note that we do *not* favor any simplification of the analytic requirements for fund liquidity risk assessment that are laid in Section 270.22e-4(b)(2)(iii). Indeed, we would hope that the simplification of the asset classification requirements would allow more time and resources for fund managers and directors to focus on this liquidity risk assessment.

Setting Regulatory Default Baselines for Liquidity Classification

The liquidity characteristics of an asset are a matter of market liquidity in the broad securities market, not the funding liquidity of a particular entity. Beyond the knowledge gained as a regular market participant, individual funds would not appear to have a unique insight into market-level liquidity. In addition, as discussed above, funds can face a conflict of interest in that they may have financial incentives to classify high-yielding illiquid assets as liquid in order to boost returns and therefore attract new assets. Indeed, if there was significant diversity between funds in asset-level liquidity classifications this would be a matter for concern, as all are operating in similar markets, and one would suspect the reasons might involve such conflicts of interest.

In light of this, the benefits of leaving the vital task of asset-level liquidity classification to individual funds seem limited, and the potential costs resulting from both compliance costs and possible misclassifications due to conflicts of interest seem high.

We instead favor a strong role for regulators in setting a baseline for default liquidity classifications, including both the various liquidity buckets and the definition of illiquid assets subject to a holdings limit. That is, regulators should communicate their views to funds as to the appropriate liquidity classifications for various types of assets, given current expectations for upcoming market conditions and stress. Such recommendations could include guidance as to lot sizes that typically could be disposed of within the designated period of time and those that could be more challenging. Funds would retain final discretion and be free to diverge from regulatory recommendations and classify assets in a different category, but they should clearly document their reasons for divergence.

In the Proposed Rule the Commission comments that there are several fund-specific reasons that assets held by a particular fund may be less liquid than such assets might normally be. These reasons include cases where the assets were segregated against a derivatives exposure, were part of a hedging strategy, or were held in sizes that could not easily be accommodated in the market without moving prices significantly. All of these cases should be simple and straightforward to note as reasons for diverging from a recommended liquidity classification, and the Commission should require funds to diverge from the general recommendation when such fund-specific factors applied. All of these factors will generally involve placing the asset in a less liquid category than it otherwise would be in, thus leading to a more conservative assessment of risk. Such divergences in a more conservative direction should generally not be a cause for concern.

While the Commission should take the lead in arriving at recommended liquidity classifications, we strongly believe that others across the regulatory community, including the FSOC, the Office of Financial Research (OFR), the Federal Reserve, the Federal Reserve Bank of New York, and the Comptroller of the Currency (OCC), should also have input into the liquidity classification process. The OFR and FSOC have expertise in research and data analysis and are charged with monitoring emerging risks to the financial system, so should be able to contribute to an assessment of liquidity risk. The Federal Reserve and OCC supervise banks that are major dealers in the financial markets, and the FRB of New York is both a significant actor in financial markets and the on-site supervisor of key Wall Street banks. All of these entities should be able to provide useful input on market liquidity conditions.

Regulators should set and regularly update these liquidity classifications based on their assessment and forecast of upcoming market conditions, including reasonably foreseeable stress conditions. This would also assist funds in determining how to view liquidity in light of potential stress conditions.

Providing Greater Clarity on Stress Assumptions for Liquidity Planning

The Commission will soon release a proposal on fund stress testing, which perhaps will contain additional information on the interaction between liquidity planning and stress assumptions. However, the treatment of stressed conditions and assumptions in this proposal is unclear. Stress assumptions are not specified for classification of individual assets into liquidity buckets, even though the time to sell an asset and the likelihood that such a sale will move markets will almost certainly be affected by market conditions. The classification of 15% standard assets appears to be based on 'the ordinary course of business', i.e. non-stressed conditions.

The assessment of liquidity risk is specified in the rule to encompass redemptions "that are expected under normal conditions, ***or*** are reasonably foreseeable under stressed conditions" [emphasis added]. The conjunction 'or' leaves uncertainty as to whether funds should choose one of the two conditions (normal or stressed), or else plan to address both sets of conditions. However, the discussion in Part III.C.1 of the proposal appears to imply that funds should consider and prepare for both sets of conditions.[13] We strongly support liquidity planning that prepares for both normal and reasonably foreseeable stressed conditions.

We believe that both the risk to investors and the potential systemic risk posed by poor liquidity planning are significantly greater in periods of market stress. Liquidity demands and market conditions in stress periods can obviously differ dramatically from normal periods, underlining the importance of specific preparation for such events. However, as the economic analysis in the proposal points out, liquidity demands during normal market conditions may in some cases and for some funds be greater than those in stressed conditions, so it is important to prepare for both.

However, we believe it is also important to take into account stressed conditions in the classification of asset-specific liquidity estimates, particular for 3 day assets and assets subject to the 15% limit. We believe that 'reasonably foreseeable stressed conditions' are also the correct standard to use for these classifications. As stated above, we believe that regulatory recommendations as to asset liquidity classifications, including regular review of such recommendations, could incorporate consensus predictions as to stressed conditions that are foreseeable over a given time horizon.

Strengthening Standards For Illiquid Assets Subject to the Holdings (15%) Limit

We regard the limit on holdings of illiquid assets, currently set at 15%, as a potentially important liquidity protection. But we are concerned that this limit is not being properly enforced and may have a limited impact on fund behavior. As discussed above, we are disappointed that this rule appears to codify the existing standard under which assets that are not in fact convertible into cash within 7 days are not classified as 'illiquid' and subject to the 15% limit.

We believe that the definition of assets subject to the holdings limit should be harmonized with the other liquidity buckets proposed in this rule, which require that an asset actually be convertible to cash within a specified number of days. In addition, we believe that the definition of illiquid assets should be specified to include reasonably foreseeable stress. We believe that

[13] "This proposed definition contemplates that a fund consider both expected requests to redeem…as well as requests to redeem that may not be expected foreseeable under stressed market conditions". CFR 62303-62304.

such harmonization will both make the limit more effective and simplify the structure of liquidity oversight by regulators and liquidity planning by funds.

The Commission may be concerned that these changes in the 15% limit will be disruptive to markets by creating significant changes in the types of assets funds are able to hold. If this is a concern, then the length of time acceptable for full liquidation could be increased (e.g. from 7 days to 14 days), or the size of the holdings limit could be moderately increased beyond 15%. As it is, we are concerned that the 15% limit applies to an inappropriately narrow range of assets and is therefore ineffective as an investor protection mechanism.

In cases where a strengthened limit would make it difficult for open-ended funds to hold certain assets, the Commission should keep in mind that funds with other types of structures that do not provide investors with assurances of liquidity could still hold the assets.

Overall Assessment of Proposed Rule – Investment Company Reporting Modernization

In addition to the core liquidity proposal, this proposal also re-opens the comment period for the Investment Company Reporting Modernization release.

AFR strongly support updating reporting requirements for funds. As we stated in our comment to the FSOC regarding asset management, the increased use of derivatives by funds, and the increased complexity of fund strategies, means that current disclosure requirements are in many cases obsolete.[14] In particular, we strongly support the new Form N-PORT report which would provide investors with complete fund portfolio information in structured data (XML) format. We find the reporting requirements for derivatives (including the changes made under Regulation S-X) and securities lending to be particularly valuable updates.

We urge the Commission to require granular position-level reporting wherever possible, including a full taxonomy of derivatives categories, and support reporting of such positions in an open-source structured data format that will make it possible for investors or third-party services to easily analyze this data. Where calculated risk metrics are necessary we urge the Commission to standardize the calculation of such metrics for reporting purposes, so that differences in internal risk modeling do not make it difficult to compare exposures between funds.

One area in which we disagree with the Investment Company Reporting Modernization proposal is the frequency of reporting to the public on fund positions. The proposal would make fund positions public once per quarter, with a 60 day lag, when such positions are reported to the Commission on a monthly basis. We believe that fund positions should be released to the public

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[14] Americans for Financial Reform, "Comment to FSOC on Asset Management", March 27, 2015, available at http://ourfinancialsecurity.org/wp-content/uploads/2015/03/AFR-Comment-to-FSOC-On-Asset-Management-Docket-FSOC-2014-0001.pdf

on a monthly basis with a shorter lag (e.g. 30 days), to provide additional transparency to investors. During times of market stress it is important for relatively up to date information to be available, and we do not believe quarterly reporting is adequate to inform investors. As pointed out in Morningstar's comment on the proposal, monthly reporting is already the standard in many jurisdictions and many funds voluntarily provide disclosures to favored investors on an even more frequent basis.[15]

We believe that these reporting reforms will also help to support better market discipline on liquidity management, as holdings of illiquid assets will be more transparent to the market.

Overall Assessment of Proposed Rule – Swing Pricing

We could support a properly controlled procedure for assessing costs of redemption and recouping these costs for the benefit of shareholders who do not redeem. However, we are concerned that the swing pricing procedure laid out in this rule is again highly self-regulatory, grants excessively broad discretion to fund managers to design the swing pricing procedure, and does not inform investors in advance concerning critical aspects of swing pricing such as the threshold at which swing pricing goes into effect.

The proposal includes substantial discretion concerning the threshold for swing pricing and the actual level of the swing pricing adjustment. We believe this discretion is excessive. If SEC oversight of swing pricing is lax, this discretionary process holds the risk of near-arbitrary redemption fees charged to investors, fees that could become effectively a form of gating during periods of market stress. We believe that such de facto gating with could harm investors, and, since the trigger point for imposing fees would be opaque, potentially also increase systemic risk as investors might seek to redeem early to avoid fees. An inadequately controlled swing pricing procedure could also result in unequal treatment of investors who redeem shares at different times in a manner that is not fully justified by differences in their market impact.

At the same time, we do support the idea of swing pricing or a redemption fee in principle, so long as it is properly controlled. Without such a pricing adjustment, long-term shareholders are diluted by the actions of market participants who trade with greater frequency, and redeeming shareholders do not internalize the costs of their actions. As cited in the proposal, there is now ample academic evidence on the potential benefits to fund shareholders of swing or redemption pricing, including benefits in terms of liquidity management due to less short-term redemptions.

If a redemption fee were implemented, we would support a simple, low-threshold redemption fee that is implemented consistently and universally across all funds, and is fully understood by the investor community. The rule raises a number of issues with such a proposal, including possible

[15] Available at http://www.sec.gov/comments/s7-08-15/s70815-355.pdf

conflict with SEC valuation guidance, increased volatility in fund NAV, and the differences in redemption costs for different types of funds and levels of redemption. However, we believe that such issues could be addressed by designing a procedure that creates a simple baseline level for a redemption fee that is applicable on a lower bound basis across a wide range of funds. Many of the positive incentive effects of swing pricing could be gained even if the swing pricing level is a lower bound average price. Since the swing pricing procedure would be public, predictable, and understood by investors, volatility in fund NAV due to the process would also be predictable.\ Such a structure would limit the ability of fund managers to manipulate the swing pricing level in ways that might be harmful to investors.

Thank you for the opportunity to comment on these Proposed Rules. Should you have any questions, please contact Marcus Stanley, AFR's Policy Director, at [redacted] or [redacted].

Sincerely,

Americans for Financial Reform