February 13, 2023

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, D.C. 20549-1090

Via email to rule-comments@sec.gov

RE: Proposal Regarding Liquidity Risk Management and Swing Pricing (File No. S7-26-22)

Dear Ms. Countryman

We are the independent Directors of the Ohio National Fund, Inc. ("ON Fund" or the "Funds"), which, as of December 31, 2022, consists of twenty-five open-end mutual funds with approximately $10.8 billion of assets under management. The funds range in size from $44 million to $1.1 billion and are used primarily as investment options supporting variable annuity contracts issued by The Ohio National Life Insurance Company.

We are writing to voice our opposition to the Commission's recently released proposal to mandate swing pricing of open-end funds and the associated requirement for a "hard close" for shareholder transactions. The proposal would impose significant compliance and operational costs on funds and their shareholders, upset settled investor expectations of how mutual funds operate, disadvantage intermediated shareholders, disproportionally impact smaller funds, and put open-end mutual funds at a competitive disadvantage. In short, swing pricing and a hard close are counterproductive to the best interest of shareholders.

We appreciate and support the objective of protecting shareholders against dilution or accretion as the result of large redemption and subscription activity. However, we believe the costs of implementing mandatory swing pricing and a hard close far outweigh any potential benefit to our shareholders. Moreover, we do not believe this proposal solves any problem that our shareholders are likely to encounter.

I. Swing Pricing

1. Existing Liquidity and Redemption Management Tools are Effective

Our Funds are predominantly made up of highly liquid equity and fixed income securities. (As of December 31, 2022, the Funds were 99.77% highly liquid.) As is required of all mutual funds under existing rules, we have established and implemented a comprehensive Liquidity Risk Management ("LRM") program. The LRM program is designed to ensure adequate liquidity in the event the Funds experience significant redemption activity. Additionally, frequent trader activity is continuously monitored and, as appropriate, shareholders and intermediaries are reminded of the Funds' frequent trading policies and may be restricted from frequent trading.

While Fund shareholders are exposed to certain transactions costs and risks due to the way mutual funds are purchased and redeemed, the existing regulatory requirements for monitoring and reporting liquidity, along with prudent cash management tools and practices, are sufficient to manage anticipated redemptions, even large redemptions. Significantly large redemptions (e.g., when an intermediary makes changes in its investment models) normally come with advance notice and can be handled by other means to help manage any potential dilutive impacts. Given the tools currently available to our Funds and funds in general, swing pricing could be unfair to investing or redeeming shareholders by imposing on them actual costs that exceed the theoretical costs of potential dilution.

2. Swing Pricing Eliminates Transparency in NAV Calculations

Mandatory swing pricing would upset settled investor expectations about how mutual funds operate. Today, funds strike their daily NAVs based on the market value of their holdings net of the impact of known operational expenses. While the details behind the calculation of these numbers may be complicated, the idea of "value equals assets minus liabilities" is generally well understood. Fund investors have come to rely on the inherent transparency of fund pricing, which has been a hallmark of open-ended mutual funds for over 80 years. The swing pricing proposal would require funds to incorporate into their daily NAV calculations *estimates* of (i) costs stemming from shareholder inflows or outflows; (ii) the costs of trading activity and changes in portfolio holdings associated with purchases and redemptions; and (iii) the costs of depleting a fund's liquidity. Introducing these estimates into the daily NAV calculation dramatically reduces transparency, which is a hallmark of open-end funds. Because the swing factor cannot be known in advance – indeed, it cannot even be known on a given day whether it will apply to purchases or sales – it will be difficult if not impossible for individual investors to understand or to predict. Additionally, individual investors may be arbitrarily charged based on the activity of other shareholders' transactions. This lack of transparency arguably reduces the appeal of an investment product that has become the most popular way for ordinary Americans to invest and save for retirement.

3. Swing Pricing will Negatively Impact Fund Operations

The proposal would also have a significant impact on daily fund operations. The ON Fund already dedicates significant resources on a daily basis to monitoring and evaluating the pricing process, including price verifications, price challenges, back testing, fair valuations, etc. Adding the additional complexity to the NAV calculation to evaluate the potential impact of shareholder activity will have a significant impact by compressing the time for the day's normal activities and creating an entirely new area of potential error.

4. Swing Pricing will Impose Substantial Costs, Especially on Smaller Funds

The proposal would impose substantial costs on funds regardless of the probability of the material dilution the proposal seeks to avoid. As Directors of a smaller fund family, we are particularly concerned about the costs and competitive disadvantages that are likely to result if the

Commission's proposal were to be adopted. Service providers will not create systems to facilitate the necessary calculations, nor will they perform those calculations, for free. Moreover, smaller funds will likely need to engage service providers to assist them in quantifying the estimated costs of historical trading, including market impact, in order to apply an estimated swing pricing factor adjustment. The impact of these costs on smaller fund families will be disproportionately large since smaller fund families must spread costs over smaller asset bases. In addition, the proposal would require vast changes in policies, procedures, computer systems, and contractual arrangements between funds and intermediaries. The Commission acknowledges in the proposal that it cannot reasonably estimate the costs of these changes. As always, such costs would have a disproportionate financial and operational impact on smaller fund complexes. Those impacts would be borne by fund shareholders and would, therefore, place smaller fund complexes at a significant competitive disadvantage.

The cost of compliance with other recent rules (including the existing LRM rule and new Rules 2a-5 and 18f-4) has already impacted shareholder expenses to a great degree. Additional regulatory requirements to implement and maintain swing pricing will only further increase shareholder costs without a demonstrable benefit. Each incremental basis point of expense is felt by the shareholders directly. This puts smaller fund families at a significant competitive disadvantage. When smaller funds close due to increased regulatory costs, investors are left with fewer choices and a less competitive fund market.

3. Funds Can Voluntarily Impose Swing Pricing

Although we do not believe swing pricing or a hard close is the answer, we note that fund boards currently may use swing pricing if they choose. However, no US mutual fund currently imposes swing pricing. The fact that none have suggests that there is no investor demand for these products. Investors in open-end funds simply do not seem to want the trade-offs and costs that swing pricing would entail.

II. <u>Hard Close</u>

1. A Hard Close Would Disadvantage Intermediated Funds

The "hard-close" requirement would require fundamental changes to industry-wide standard practices concerning the delivery of shareholder transaction orders by intermediaries. The hard close requirement is particularly concerning to funds such as ours that serve as underlying investments in variable insurance products, as 100% of our shareholder transaction orders are delivered to the fund by intermediaries.

In order to implement swing pricing, the Commission has proposed requiring that all purchase or redemption orders be received by a fund by 4:00 p.m. Eastern time ("ET"). Under current industry practice, fund intermediaries may gather orders to be executed at a particular day's NAV up until the time as of which the NAV is struck, typically corresponding to the 4:00 pm ET close of US stock exchanges. Intermediaries typically deliver those orders to the fund's transfer agent later that day or prior to the market open on the following day. The fund industry's established shareholder transaction processing systems and environment are simply not designed to accommodate a hard 4:00 pm ET cutoff for delivery of shareholder orders to funds. If the Commission's proposal is adopted, intermediaries will have to either establish earlier cut-off times for their customer trades so that they can submit aggregated orders to a fund by 4:00 p.m. ET or transmit all orders to the fund on the next business day following the intermediary's receipt of the order. An earlier cutoff for a subset of shareholders transacting through intermediaries means that they will not benefit from market information arising after an intermediary's earlier cut-off but before 4:00 p.m. ET. An investor is similarly disadvantaged if her order is not "received" by the fund until the business day after it is received by the intermediary. The disadvantage to shareholders resident outside the Eastern time zones is even more pronounced and is likely to far outweigh the dilution (if any) that might result from large redemption transactions.

A hard 4:00 pm ET close is especially problematic for issuers of variable annuity contracts because an annuity's unit value, which includes the variable annuity level fees and expenses, and the insurance company's net purchase/redemption orders, must be calculated after the underlying funds' NAVs are calculated. The hard close will expose insurance company separate accounts to significant breakage risk and will harm variable contract investors who expect to receive same-day pricing on their transactions. Due to the complexity of variable annuity products and the fact that it is dependent on the underlying funds' NAVs, this calculation is time consuming and simply cannot be done in a timeframe that would meet a 4:00 pm ET hard close. Instituting early cut-offs, which could be as early as 10:00 am ET, would not alleviate the breakage risk and would be inconsistent with investors' expectations. Moreover, the cost of converting variable annuity systems to meet a 4:00 pm ET hard close requirement would far outweigh any potential benefit. And, as this cost would be borne by annuity contract owners, this proposal would reduce the attractiveness of variable annuity contracts. Insurance companies may therefore choose to cease offering them, thus eliminating a product used by many investors to fund their retirements.

2. The Proposal Puts Open-End Mutual Funds at a Competitive Disadvantage

As noted above, fund managers and intermediaries will incur significant costs to change their systems to comply with a hard close. In addition, funds will experience significant costs to implement new systems to manage and oversee swing pricing. These costs likely will be passed on to fund shareholders, whether directly or indirectly, and will depress returns all retail investors ultimately earn through their open-end fund investments. This, combined with the earlier cut-off time imposed by intermediaries, may cause a significant percentage of investors to disinvest from mutual funds, which will result in a reduction in economies of scale and an increase in fund fees. New investment will flow to closed end funds, interval funds, common investment trusts or exchange traded funds, which are not subject to the proposed rule, rather than to mutual funds. Adopting a rule that increases fund expense and limits competition is not in the best interest of shareholders.

III. Conclusion

In closing, we appreciate that the Commission is attempting to protect shareholders. That is our primary concern as well. But we fear that the proposal will hurt shareholders by imposing additional costs on them without a meaningful benefit and will even deprive them of the right to transact at current day pricing that they currently have. Moreover, the proposal puts small fund groups, and fund groups that primarily sell through intermediaries, at a marked competitive disadvantage. We believe that the existing set of rules, policies and procedures, along with decades of experience in actively managed portfolio management, which includes prudent cash management, within the current regulatory and oversight environment, are sufficient to address the concerns outlined in your proposal.

Sincerely,

/s/Christopher A. Carlson

Christopher A. Carlson

Chairman, Ohio National Fund, Inc.

On behalf of:

Lawrence L. Grypp

Geoffrey Keenan

Madelaine W. Ludlow

Julia W. Poston