LORD ABBETT®

February 14, 2023

Via email to rule-comments@sec.gov

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

Re: Open-End Fund Liquidity Risk Management Programs and Swing Pricing; Form N-PORT Reporting (File No. S7-26-22)

Dear Ms. Countryman:

We have served as a fiduciary to and an investor on behalf of our clients since our founding in 1929. Prior to the enactment of the Investment Company Act of 1940, the industry pioneers who established Lord, Abbett & Co. LLC ("**Lord Abbett**") testified before Congress to express our enduring belief that our industry needs "realistic, practical, and constructive regulation of investment companies."[1] In this spirit, today we are deeply concerned that the above-referenced proposal (the "**Proposal**") will fundamentally alter the open-end fund industry, reducing access and choice and increasing costs for approximately 115 million Americans who rely on mutual funds to save for their future.[2]

Lord Abbett appreciates efforts by the U.S. Securities and Exchange Commission (the "**SEC**") to protect shareholders against dilution, improve liquidity risk management practices, and enhance reporting but cannot support the rules as proposed.[3] We highlight below our key concerns with the Proposal.

1. Upsetting Shareholder Experience and Expectations

The hard close proposal likely would lead to earlier order cutoff times and result in shareholders who access funds through different intermediaries experiencing different order cutoffs. The SEC acknowledges this outcome, then asserts that technology advances would reduce the gap between intermediaries' cutoff times and funds' pricing times. The industry consensus, however, is that there will be disparate processes in practice, with intermediaries establishing cutoffs based on their systems and structures, causing disparate treatment and shareholder confusion.

Likewise, as proposed, swing pricing would create shareholder confusion. The SEC recognizes that no mutual fund in the United States has implemented swing pricing since the SEC approved its discretionary use in 2016. We anticipate a steep learning curve for retail investors, by far the largest holders of mutual

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1 Investment Trusts and Investment Companies: Hearings before a Subcommittee of the Committee on Banking and Currency, 16th Cong. 605-620 (Apr. 19, 1940) (testimony of Andrew J. Lord and John Sherman Myers).

2 Investment Company Institute, Mutual Funds Are Key to Building Wealth for Majority of U.S. Households (October 31, 2022), available at https://www.ici.org/news-release/22-news-ownership.

3 SEC, Open-End Fund Liquidity Risk Management Programs and Swing Pricing; Form N-PORT Reporting, Rel. No. IC-34746 (Nov. 2, 2022), available at https://www.govinfo.gov/content/pkg/FR-2022-12-16/pdf/2022-24376.pdf.

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fund assets,[4] with little benefit.

2. Passing Significant and Unquantified Costs on to Shareholders

While the SEC focuses on passing on costs to shareholders from their own purchase or redemption activity, it fails to fully consider the immense costs of implementing the Proposal and the inevitable passing on of *those* costs to shareholders. Implementing swing pricing and a hard close would involve significant operational changes for funds and the entire distribution ecosystem. The SEC acknowledges that it is not able to quantify many of these costs. We find it difficult to justify passing on to shareholders the significant costs of the vast rebuild across the industry that would be needed to implement the Proposal.

3. Underestimating Difficulties of Swing Pricing Implementation

Swing pricing improves fund performance – and correspondingly, fund managers' revenues – because purchasing or redeeming shareholders, rather than the fund, bear transaction costs associated with their trading activity. The industry therefore has a powerful incentive to implement swing pricing given that funds compete on performance. Despite this incentive, the industry has not embraced swing pricing because of the extraordinary legal, operational, and distribution challenges it entails.

4. Undermining the Viability of Open-End Bank Loan Funds

The Proposal's treatment of investments with longer settlement periods as being per se illiquid negates funds' broader liquidity risk management toolkit and undermines the viability of open-end bank loan funds. The SEC fails to justify the measures it proposes to mitigate the risks it associates with longer settlement periods but does acknowledge that bank loan funds met redemptions during March 2020, a period of unprecedented outflows. The forced liquidation or conversion of bank loan funds would cause significant market disruption due to an increase in bank loan sellers and decrease in buyers, as well as the loss of a source of liquidity for the capital markets.

5. Reducing the Scope and Quality of Investment Choices in Open-End Funds

By orienting liquidity risk management to the most extreme market events, the SEC would impose significant costs and performance drag on open-end funds, which will negatively affect shareholders. We view the proposed changes to Rule 22e-4 as disproportionate to the perceived risks and we believe they will limit the types of exposures available to shareholders through open-end funds. Like the swing pricing and hard close proposals, these changes could push asset managers to offer collective investment trusts and other investment vehicles with less stringent liquidity, diversification, concentration, and other protections over mutual funds. The Proposal undercuts investor protection by potentially limiting the choice and breadth of products that investors would be able to access.

6. Increasing Compliance and Reporting Costs

Lord Abbett is also concerned with the compliance costs and burdens that likely would result from the additional reporting obligations included in the Proposal. The Proposal would require several changes to fund reporting obligations on Form N-PORT, including swing factor reporting, public reporting of aggregate liquidity classifications, and increased filing and publication frequency, as well as on Form N-

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[4] *See, e.g.*, Investment Company Institute, 2022 Investment Company Fact Book (2022) at 48 ("Retail investors (*i.e.*, households) held the vast majority (88 percent) of the $27.0 trillion in U.S. mutual fund net assets at year-end 2021. . . . The proportion of long-term mutual fund net assets held by retail investors is even higher (94 percent).").

CEN. The combined effect of these changes would be to create initial compliance costs to implement the changes and to increase ongoing compliance costs, both of which we expect to be excessive compared to any related benefits. These costs are likely to be passed on to shareholders.

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We share the SEC's commitment to protecting shareholders. In its current form, however, the Proposal will do more harm than good to mutual fund shareholders. We believe a more conscientious and holistic evaluation of the concerns the SEC is looking to address in the Proposal through thoughtful and widespread engagement with industry participants is needed.

Thank you for the opportunity to express our thoughts on this important topic. Please contact Larry Stoller, Lord Abbett's General Counsel, at [redacted] or [redacted] with any questions.

Sincerely,

/s/ Douglas B. Sieg
Douglas B. Sieg
CEO & Managing Partner

cc: The Hon. Gary Gensler, Chair, U.S. Securities and Exchange Commission
The Hon. Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission
The Hon. Caroline A. Crenshaw, Commissioner, U.S. Securities and Exchange Commission
The Hon. Mark T. Uyeda, Commissioner, U.S. Securities and Exchange Commission
The Hon. Jaime Lizárraga, Commissioner, U.S. Securities and Exchange Commission
Mr. William A. Birdthistle, Director, Division of Investment Management, U.S. Securities and Exchange Commission