

Mutual Fund Directors/Executives Expect Rule 22c-2 to Identify and Deter, But Not Prevent, Marketing, PFPC Study Reveals

Sixty-nine percent of mutual fund directors believe market timers will still time the market regardless of short-term redemption fees imposed on them, according to findings from a nationwide study of mutual fund directors and executives released today by PFPC. More than 150 mutual fund directors and executives weigh in on the impact of the new Securities and Exchange Commission Rule 22c-2 as the final deadline approaches on Oct. 16, 2007.

Wilmington, Del. ([PRWeb](#)) October 3, 2007 -- Mutual fund companies, recovering from market timing issues of 2003, will now have the ability to identify market timers even in accounts held by financial intermediaries, thanks to the new Securities and Exchange Commission (SEC) Rule 22c-2 which officially goes into effect October 16, 2007. However, not all mutual fund directors believe that imposing short-term redemption fees will stop market timing, according to findings from a nationwide study of mutual fund directors and executives released today by [PFPC](#). In fact, the majority of directors (69 percent) said market timers will still time the market regardless of short-term redemption fees imposed on them. However, best practices, such as risk ranking, are being implemented. Four out of 10 (43 percent) of directors surveyed report their funds risk rank the intermediaries who distribute/sell their funds.

Among the 101 independent and interested board directors contacted:

- A vast majority (84 percent) said imposing short-term redemption fees is an effective way to deter short-term trading abuses.
- Nearly two-thirds (65 percent) of larger fund companies (more than \$10 billion in assets), but only 18 percent of smaller funds (less than \$10 billion in assets) will risk rank the intermediaries who distribute/sell their funds.

"Those intermediaries that are assessed with higher risk rankings may see more trading restrictions imposed by fund companies. Likewise, higher risk rankings may increase fund company requests for shareholder data under the 22c-2 Rule," said Peter Rigopoulos, senior vice president, PFPC. "The fact that smaller fund companies are less likely to risk rank intermediaries may be indicative of the burden smaller funds say they face in complying with the current regulatory environment."

The PFPC Mutual Fund Board Study is the first, most comprehensive analysis conducted of the perceptions of mutual fund directors and executives about the impact of the current regulatory environment on the fundamental operation of mutual funds and their boards. The study of 101 independent and interested board directors and 53 fund executives was conducted by an independent research firm, Artemis Strategy Group, and commissioned by PFPC, a member of [The PNC Financial Services Group, Inc.](#)

When asked "if compliance with Rule 22c-2 is unfair to fund companies because the onus is on them to police activities of intermediaries," seven out of 10 fund executives (68 percent) and nearly half (47 percent) of board members agreed or strongly agreed. More than three quarters (78 percent) of larger fund companies and 62 percent of smaller fund companies surveyed impose a short-term redemption fee on market timers, as provided for under Rule 22c-2.

Shareholder Information Remains Protected

Rule 22c-2 requires financial intermediaries to disclose to fund companies information about individual transactions, causing speculation within the industry that mutual fund companies could use that new information

to market directly to individual shareholders. Previously, individuals who traded through intermediaries were anonymous to mutual funds because intermediaries traded on behalf of all of their customers through a single account.

Surprisingly, seven out of 10 (72 percent) of board members surveyed believe that the mutual fund companies will ultimately benefit from Rule 22c-2 because they will gain valuable information about shareholders previously held closely by intermediaries. And six in ten board members (61 percent) believe that this shareholder information that mutual funds gained as a result of Rule 22c-2 will enable fund companies to market directly to individual shareholders.

"The transparency that the Rule gives mutual fund companies is at the financial intermediary level. In most cases, individual shareholders should only be known to the fund company as an I.D. number that can be used to track market timing violators," said Rigopoulos.

However, nearly half of the fund executives participating in the study were chief compliance officers, whose sole responsibilities focus on assuring fund compliance with all SEC rules and regulations, including 22c-2. Fifty-three percent of respondents who are fund executives (includes those serving on the boards as interested members) "disagreed" or "strongly disagreed" that shareholder information that mutual funds gain as a result of 22c-2 will enable fund companies to market directly to individual shareholders.

"Should fund companies learn individual shareholder names, they are still restricted from using that information for direct marketing under the privacy rules of the Gramm-Leach-Bliley Act," said Rigopoulos.

About Rule 22c-2

Rule 22c-2 is a new SEC rule that allows registered open-ended investment companies to impose a fee on the redemption proceeds of shares redeemed within five days of their purchase. The imposed fees, not to exceed two percent of the amount redeemed, will be retained by the fund. The redemption fee is intended to deter market-timing, while also allowing funds to recoup some of the direct and indirect costs incurred as a result of short-term trading strategies, such as market timing. The final effective date for Rule 22c-2 is Oct. 16, 2007.

Survey Methodology

The PFPC Mutual Fund Board Study was conducted by the independent research firm Artemis Strategy Group, headquartered in Washington, D.C. The study was based on 154 telephone interviews conducted with 57 independent board members, 44 interested board members and 53 fund executives, including presidents, chief compliance officers, chief executive officers and chief financial officers. The study was completed in July 2007.

For more information, contact Robert Tacey, PFPC, at 302-791-2859 or Amy Vargo, PNC, at 412-762-1535.

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Contact Information

AMY VARGO

<http://www.pfpc.com>

412-762-1535

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