

Could an Expanded Rule 22c-2 Start to Pry Open Omnibus?

By Whitney Curry Wimbish, [BoardIQ](#), October 22, 2013 [subscription required]

Money market fund reforms currently under consideration don't adequately address how they would apply to money funds distributed via omnibus platforms, a handful of commenters say. The problem, they say, is the overall trouble with omnibus accounting: It's difficult to know if distributors are actually doing what they're supposed to.

At least two commenters suggest the Securities and Exchange Commission expand the scope of Rule 22c-2, a rule promulgated in response to mutual fund market timing that requires intermediaries to give funds certain information about shareholders when requested.

Expanding 22c-2 to money market funds, which are now exempt from the rule, would give fund boards the ability to properly oversee intermediary and shareholder activity – part of the reforms' potential requirements, suggested Carol Deckbar, executive vice president and chief operating officer of asset management at **TIAA-Cref**, and Niels Holch, executive director of the **Coalition of Mutual Fund Investors**, in separate letters. (Read their respective letters in full [here](#) and [here](#).)

Discussion of the difficult intersection of money fund reform and omnibus platforms comes shortly after the SEC unanimously approved proposals to reform money market fund regulations early this summer. The proposals contain a pair of potential approaches, either of which could be adopted. The commission could also adopt a combination of the two.

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But a handful of commenters said none of the reforms would work as intended for money funds distributed via omnibus platforms.

“Unfortunately, the SEC does not provide money market funds with any tools to apply and enforce their policies and procedures limiting daily redemptions on retail investors,” Holch wrote. “Unlike Rule 22c-2, the SEC would not require funds to enter into explicit agreements or contracts with omnibus account holders to share information at the shareholder or account level. Instead, funds would be permitted to manage their relations with omnibus account holders ‘in whatever way that best suits their circumstances.’”

Likewise, it's impossible to uniformly implement redemption fees or partial gates within omnibus accounts, for the same kinds of reasons, he added.

Other commenters had similar concerns.

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Holch makes the case in his letter that expanding Rule 22c-2 to money market funds could kill two birds with one stone. Doing so would make money fund reforms easier to implement and could improve overall omnibus information sharing between intermediaries and mutual funds.

Transparency into underlying shareholder accounts would “improve the ability of money market funds to comply with the SEC’s general liquidity requirement in its current regulations, in which each fund is expected to evaluate, on an ongoing basis, the risk characteristics of its shareholders and maintain appropriate liquidity cushions to meet reasonably foreseeable redemptions,” he wrote.

“As an additional point,” Holch continued, “addressing the omnibus account transparency problem will resolve several other regulatory compliance issues, such as the inability of funds to apply market timing restrictions and sales load discounts.”

In an interview, Holch said such an amendment would go a long way toward eliminating tension between funds and their intermediaries.

“It’s an awkward conversation for a money market fund to call up its distributor to ask for compliance information,” he said. “So if you just make this a routine that everybody has to follow, that’s standardized because of an SEC rule, you make it a compliance function only and not an awkward conversation. You make it a requirement.”