High Cost for Retail Funds That Dodge Floating NAV

By Peter Ortiz, *Ignites*, June 18, 2013

The SEC proposal that would allow retail money funds to dodge the much-maligned floating net asset value raises a host of questions and potential operational and compliance concerns, industry sources say.

Under the proposal, prime institutional money funds would have to float their NAV. But for retail funds to qualify as exempt from a floating NAV they will need to restrict daily redemptions per money fund shareholder to no more than $1 million.

This will lead to one-off and ongoing costs that include reorganization of retail and institutional funds and monitoring funds held in omnibus accounts.

The Securities and Exchange Commission's proposal acknowledges the "operational challenges of implementing an exemption for retail investor funds are numerous and complex". One of those challenges is dealing with money funds that have retail and institutional share classes.

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Unless funds have full and real-time transparency down to the beneficial money fund owner, it will be very difficult to implement the proposal limiting redemptions to $1 million daily, says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

The problem is that the SEC proposal does not provide retail funds with the regulatory tools to get to that transparency, he says.

The proposal "is sort of a trust-me concept", Holch says. "It is an awkward conversation for a fund to have with its distributors about a compliance issue like this."