A New Computer Glitch is Rocking the Mutual Fund Industry

Outage is preventing dozens of mutual funds, ETFs from promptly pricing their securities

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A computer glitch is preventing hundreds of mutual and exchange-traded funds from providing investors with the values of their holdings, complicating trading in some of the most widely held investments.

The problem, stemming from a breakdown early this week at Bank of New York Mellon Corp., the largest fund custodian in the world by assets, prompted emergency meetings Wednesday across the industry, people familiar with the situation said. Directors and executives at some fund sponsors scrambled to manually sort out pricing data and address any legal ramifications of material mispricings, those in which stated asset values differed from the actual figures by 1% or more.

A swath of big money managers and funds was affected, ranging from U.S. money-market mutual funds run by Goldman Sachs Group Inc., exchange-traded funds offered by Guggenheim Partners LLC and mutual funds sold by Federated Investors. Fund-research firm Morningstar Inc. said 796 funds were missing their net asset values on Wednesday. An ETF trades like a stock and is designed to mimic the performance of specific asset classes or indexes.

The effects of the breakdown are threefold: It has made ETFs more costly to trade, hindered investors' ability to trade accurately in and out of popular investment vehicles, and forced fund companies to scurry to price securities.

The outage wasn't related to the market turbulence Monday that included the largest-ever intraday point decline in the Dow Jones Industrial Average, the bank said. But it nonetheless has rattled fund companies.

Pricing securities is at the core of what they do, and they are required by a 1940 law to provide accurate fund values daily. Longtime mutual-fund watchers could recall only one other fund-pricing breakdown, which affected two Wells Fargo & Co. funds in 2013.

There were no indications that other fund administrators had any issues with pricing securities.

The problems with calculating the net asset value of ETFs could raise trading costs for investors, said Todd Rosenbluth, director of ETF and mutual-fund research at S&P Capital IQ.

Several traders said they were forced to calculate their own net asset value for ETFs and that they widened the spreads, or the difference, between listed buying and selling prices to accommodate for the higher risk of trading.

“We measure our edge in terms of subpennies,” one trader said. “We can’t afford to be off by a penny.”

Early in the week, BNY Mellon notified regulators and U.S. stock exchanges about the issue. The Securities and Exchange Commission is monitoring the situation, an SEC official said.

“Funds have very sophisticated systems for dealing with this, so it doesn’t happen very often,” said Niels Holch, the founder of industry group the Coalition of Mutual Fund Investors.

As a custodian for asset-management firms, BNY Mellon and others provide accounting services that include calculating the price of the funds’ securities each day. The bank said Wednesday that it was having problems with a SunGard Data Systems Inc. system that “has impacted a limited number of fund accounting clients and the processing of net asset values of certain mutual funds and ETFs,” a spokesman said Wednesday. The system was back online by midday Wednesday, but working through a backlog, the bank said. The company relies on SunGard’s software system to calculate those prices. A SunGard spokesman didn’t return calls for comment.

Others affected included Prudential Financial Inc. and Voya Investment Management, the firms said. Invesco PowerShares, a large provider of ETFs, also said it could be affected and was monitoring the situation.

David A. Andelman, 70 years old, of New York City, said he tried to sell $15,000 of Voya Russia fund shares on Monday. By Wednesday morning, the trade still hadn’t gone through, he said. He said he was told by his broker, J.P. Morgan Chase & Co., that it couldn’t receive the funds because the bank hadn’t received pricing information from Voya.

“It’s a nightmare,” Mr. Andelman said. “I don’t trade very much and I only own mutual funds.” A Voya spokesman said in a statement: “While we can’t comment on specific clients, It is important to note that all shareholder trades that are in good order will be honored at the NAV on the day the trade is submitted.” J.P. Morgan didn’t immediately return calls for comment.

By early afternoon Wednesday, some fund companies had received correct net asset values from BNY Mellon and were trying to reconcile those numbers with what they had reported earlier in the week, according to people familiar with the process.

In a statement Wednesday morning, First Trust Advisors LP said the net asset values it had reported on four of its exchange-traded funds contained errors greater than 1%. A First Trust spokesman didn’t immediately return a call for comment.

Guggenheim Partners, which offers 64 ETFs to investors, said it had to use data from previous days because of the problems.

Federated Investors said it has experienced a “significant delay in the availability of net asset values” for dozens of its mutual funds. The problems could result in a need to reprocess trades, the company said.

A Voya spokesman said the company is “working closely with BNY Mellon” to publish net asset values for Tuesday and Wednesday. A spokeswoman for Prudential declined to comment.

Fund industry attorneys said the real challenges would arrive in the coming weeks, as fund companies and BNY Mellon hash out who is liable if investors traded on false pricing.

If an investor paid a higher net asset value than he should have, for example, some fund companies believe BNY Mellon should pay that difference. BNY Mellon declined to comment about the liability issue.

A former SEC official said the fund companies would likely be on the hook to make investors whole, at least in the short term, because they can’t wait to resolve liability issues.

The SEC has said publicly that miscalculating the net asset value of a closed-end fund, a similar type of mutual fund, can be a materially misleading statement, subjecting the fund, its board and its managers to liability.

Fund companies have strict pricing guidelines in place that dictate how they handle any error, said Marguerite Bateman, a partner at law firm Schiff Hardin LLP in Washington. But because this case is unusual, it isn’t so clear-cut, she said.

“This is something that’s affecting a lot of companies, so there will be a lot of discussions,” Ms. Bateman said.

—Andrew Ackerman and Dan Strumpf contributed to this article.