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Would Punishing Panic Sellers Doom Bond Mutual Funds?

More widespread use of “swing pricing,” which penalizes withdrawals during times of market stress, is gaining momentum among regulators.

“If the ETF came first, the SEC would never approve the mutual fund structure.”

I keep thinking about this quote from Matt Hougan, former chief executive officer of Inside ETFs, which I cited in a Feb. 19 column titled “Mutual Funds Are Not Long for This ETF World.” I argued that the Federal Reserve’s unprecedented intervention in the U.S. corporate bond market was a plot to rescue fixed-income mutual funds from potential disaster and that the coronavirus crisis would only hasten the rise of exchange-traded funds in their place.

Since then, two of the most influential U.S. policy makers have been candid about the fact that bond mutual funds pose a unique and serious problem during times of market stress. First was Fed Governor Lael Brainard during a March 1 speech on preliminary financial stability lessons from a year ago:

Continue reading.

Bloomberg Opinion

By Brian Chappatta

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