

Quadrant II – Notes

Program: B. Com

Subject: Commerce

Paper Code: COG 142

Paper Title: Introduction to Mutual Funds

Unit 2 – Mutual Fund Products

Module Name: Trading and settlement of Mutual Funds

Module No: 07

Trading and settlement of Mutual Funds

Clearing the Trade

Once an investor places an order to purchase or redeem shares of a mutual fund (directly or through a broker or advisor), the transaction is carried out at the next available net asset value (NAV), which is calculated daily after market close. Most mutual funds price their shares at 4:00 p.m. EST by using the closing market price of all the securities held in the fund.

Depending on the type of fund (e.g., equity versus commodity) and the mutual fund family, the trade is cleared through a third-party custodian or clearinghouse. Clearing trades is the process of matching up trade orders and registering and transferring share ownership.

Equity and bond funds tend to clear within one day of the trade, while commodity and other types of funds can take no more than two days after the trade date. Money market mutual fund shares are the exception, as they are cleared on the day of the trade transaction.

Charges and Fees

Mutual fund trades may be subject to fees. Some funds have up-front payments, such as a sales charge or load, or fees paid when the shares are sold called a contingent deferred sales charge. Other fees may include the following:

- **Short-term redemption fees:** some funds charge short-term redemption fees for the costs associated with short-term fund trading. The fees can range from 0.5% to 2% of a trade and typically applied to shares held for periods ranging from less than 30 days to less than 180 days.
- **Short-term trading fees:** If a trader sells certain non-transaction fee funds within 60 days of purchase, they may have to pay a short-term trading fee.
- **Transaction fees:** For some no-load funds, transaction fees may apply to purchases but not sales. The amount charged depends on whether the trade occurred online (\$75) or through a representative (\$100 minimum, \$250 maximum).
- **Purchase fees:** These fees are not the same as a front-end sales load because the fee is paid to the fund, not the broker.
- **Exchange fees:** Some funds are subject to a fee when an exchange or transfer is to a fund within the same fund family.
- **Account fees:** Some funds charge a separate account fee to cover expenses. These fees are often imposed when the dollar value of an account falls below a certain threshold.

Settlement Date

The settlement date for a mutual fund trade is the date on which the transaction is considered to be finalized and closed. Money that a customer owes must be available in their account to cover the shares purchased by the trade settlement date. Similarly, the proceeds from the redemption of fund shares must be deposited into the customer's fund account by the trade settlement date. Money market funds close and settle on the same day as the trade date.