Rule 22c-2 and Mutual Fund Redemption Fees

SEC Rule 22c-2 addresses abuses associated with short-term trading of mutual fund shares. Under this rule, if a mutual fund investor redeems (i.e. sells) his or her shares in a fund within 90 days of the purchase date, the fund may impose a penalty. The penalty, called a "redemption" fee, can be up to two percent of the value of shares redeemed. Using this rule as a guideline, each mutual fund company determines both the length of its holding periods and the redemption fees charged. Some popular mutual funds charge two percent, and have set their holding periods of up to one year from the date shares were purchased.