From: LAO Form Response
To: COIA Committee
Subject: New form response for Conflicts of Interest Act Review Committee
Date: Monday, April 8, 2024 11:36:51 AM

New Form Response

Form: Written Submissions Form
A new response was submitted on 08 April 2024, 11:36 AM.

Field	Response
First Name *	Randall
Last Name *	Morck
Email *	[redacted]
Phone *	[redacted]
City/Town *	Edmonton
Please make your written submission here: *	The Ethics Commissioner may wish to presume certain index funds as to be unaffected by decisions of the Government. Investors have no influence over which securities are in an index fund. Index funds simply track an index – that is, they buy and hold all the securities in that index. For example, S&P 500 index funds hold only the 500 stocks Standard and Poor's uses in computing that index. The only time the securities in an index fund change is when the index provider changes its index. This can happen when two firms in an index merge into one, leaving the index one short. Rather than rename its index the S&P 499, S&P includes another stock to restore the total to 500. Index providers also occasionally replace a previously important firm fallen into insignificance with a newly significant firm. When this happens, index funds tracking the altered index must change the securities they hold to precisely match the changed in the index Investors have no influence over how much of each security an index fund holds. Index funds buy and hold the securities in the indexes they track in proportion to preset weights. For example, the S&P 500 is a weighted average of the prices of 500 stocks Standard and Poor's deems representative of the US economy, each weighted by the total market value of the firm. The Dow-Jones industrial average (DJIA) is the sum of the prices of 30 stocks Dow-Jones deems representative of the US economy, the weights compensating for past splits or reverse splits, which artificially alter stock prices. The major broad market index in Canada, the S&P/TSX Composite, applies the S&P 500 formula to 237 important Canadian stocks. In all cases, the index provider sets the weights. Index funds charge lower fees than actively managed funds. Because tracking an index entails no research costs and minimal back office costs, index funds management fees can fall below 0.1% per year. In contrast, actively managed portfolios can charge two or three percent of portfolio value per year. Index funds match or outperform managed funds. This fact is well established. One explanation is that professional portfolio managers' costs readily rise to match, or exceed, their trading gains, leaving their investors no better off, or worse off, than had they invested in index funds. Another is that many professional portfolio managers are untalented. A third is that index funds inflows lift demand for index stocks, continually pushing their prices up. Index funds thus constitute a low-cost return-competitive alternative to blind trusts. Two qualifications merit

	consideration. First, the term broad matters. Influencing one stock in the S&P 500 has little impact on the return of the index, a weighted average of that stock and 499 others. In contrast, influencing a key Alberta firm might meaningfully move an index of Canadian energy stocks. Safe harbor indexes should be broad and remote from Alberta policy. Second, some government policies affect all or almost all securities. For example, Federal macroeconomic policies can move broad Canadian indexes and, by moving exchange rates, move the Canadian dollar values of broad foreign indexes. Alberta officials privy to such policies could profit from market timing (strategically moving money in and out of a broad market index fund to capture index gains and avoid index losses). Index fund transactions with the appearance of market timing should be proscribed.
Agreement	Check here to indicate that you acknowledge that submissions and identities of authors may be made public.

View response