Investment Company Institute Webinar
June 23, 2009

Broker/Dealer Advisory Committee

Account Transfers Initiative

Speakers

- **Barbara Browne**
  Boston Financial Data Services
- **Kathy Joaquin**
  Investment Company Institute
- **Paula King**
  Vanguard
- **Louis Lepore**
  DTCC
- **Mary Kay Lewis**
  Vanguard
- **Robert Linville**
  Broadridge Financial Solutions
- **Jeff Naylor**
  SunGard
- **Nino Palermo**
  American Funds
- **Barbara Simon**
  DTCC
- **Gloria White**
  American Funds

ICI Broker/Dealer Advisory Committee Account Transfers Initiative

- Formed BDAC Transfers Working Group in 2006, including funds, firms and service providers
- Enlisted participation of SIFMA Customer Account Transfer Division (CAT) Committee members
- Involved DTCC experts from Mutual Fund Services, ACATS, and legal

Background and Business Need

- Current State
  - Approximately 25% automated
    - Transfer of Retirement Assets (ToRA)
    - Automated Customer Account Transfer Service (ACATS)
    - Networking
  - Approximately 75% manual
    - Labor intensive
    - Lengthy processing cycles
    - Significant source of client dissatisfaction

Call For Industry Standardization

- Need for single system/standardization to automate transfer processing for funds and intermediaries
- Minimize programming - DTCC leveraged ACATS and Fund/SERV® systems for various transfer types
  - Built-in controls around tracking transfers
  - Reduces transfer cycle time
  - Improves overall customer experience
  - Limits market exposure

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Phase I - Enhancement Approach

- Phase I
  - Firm initiated retirement & non-retirement account re-registrations that move shares either:
    - From the firm to existing fund direct accounts
    - From fund direct accounts to the firm
  - Firm initiates transfers through ACATS
  - Fund company has 2 roles
    - Processes re-registration instructions
    - Acts as a Contra-Party to the transfer

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Fund Participation Requirements

- To use the ACATS-Fund/SERV Account Transfer capability funds need to:
  - Contact DTCC to sign up
  - Ensure ACATS-Fund/SERV eligibility of security issue IDs (CUSIP)
  - Work with service providers to implement necessary changes

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Phase I
Transfer Process – In Kind Scenarios

- Two new ***firm initiated*** scenarios:
  - **Fund to Firm**
  - **Firm to Fund**

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Fund to Firm

Client owns shares directly with Fund Company and wishes to transfer position in-kind to a firm

Preconditions:

- Fund participates in ACATS-Fund/SERV Account Transfer capability
- CUSIP is ACATS-Fund/SERV eligible
- Customer account exists at firm
- Matrix Level 0 or Level 4 on fund books
- Client completes all required transfer forms with firm

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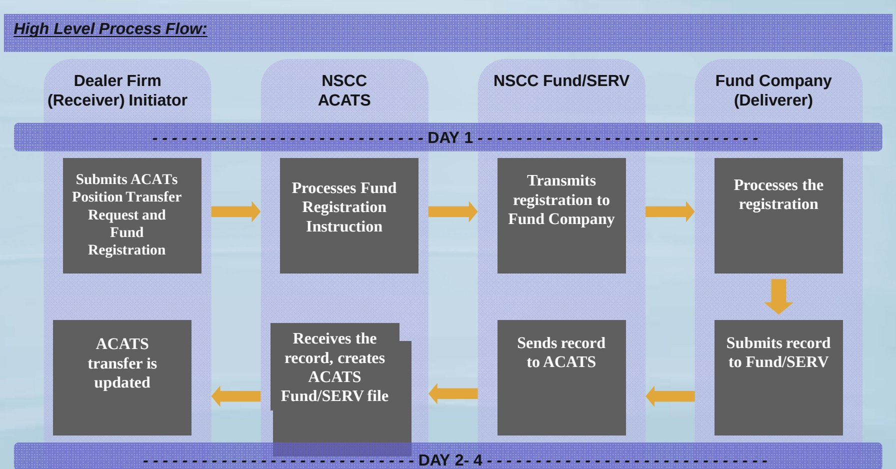
PULL Scenario – Fund to Firm



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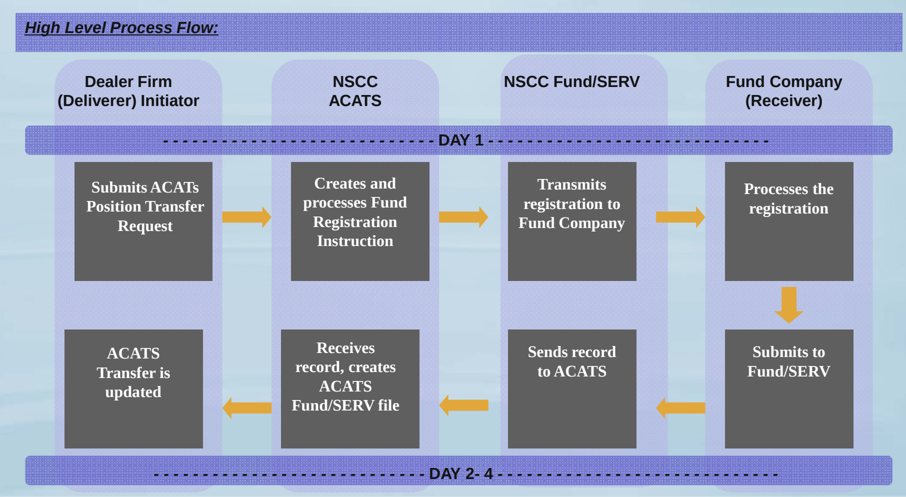
Firm to Fund

Client owns shares at a firm and wishes to transfer position in-kind to a fund company

Preconditions:

- Fund participates in ACATS-Fund/SERV Account Transfer capability
- CUSIP is ACATS-Fund/SERV eligible
- Customer account exists (held direct) at fund
- Matrix Level 3 or omnibus on firm books
- Client completes all required transfer forms with firm

PUSH Scenario – Firm to Fund



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Please answer the polling question.

Thank you

Best Practices & Frequently Asked Questions

- ***What is the benefit of using this functionality?***
  - Uses a standard method to transfer assets between delivering and receiving firms. Adopting the enhancement helps you:
    - Reduce risk
    - Improve tracking
    - Streamlines programming
  - Provides a consistent and timely experience for shareholders by:
    - Improving cycle time
    - Limiting market exposure
    - Reducing confusion
    - Standardizing process regardless of investment type

Best Practices & Frequently Asked Questions

- ***What types of assets can be transferred?***
  - The enhancement can be used to transfer both retail and retirement assets.
- ***When can I begin to use this enhancement with my clients and business partners?***
  - The enhancement is currently available to all ACATS and ACATs-Fund/SERV participants.

Best Practices & Frequently Asked Questions

- ***What do I need to know to begin?***
  - A "Best Practices" document including details on the rule changes, record layouts and important notices are available on the DTCC website (www.dtcc.com).
  - Learn more about the technical details by participating in an upcoming DTCC webinar.

Best Practices & Frequently Asked Questions

- ***How do I begin using the enhanced functionality?***
  - For brokers/dealers, banks and trust companies:
    - Existing ACATS members should be set-up for the Fund/SERV settlement location on the ACATS master file.
    - New ACATS members should contact DTCC.
  - Funds that are Fund/SERV and ACATS-Fund/SERV eligible:
    - Existing participants will need to complete an “activation letter” available through your DTCC Relationship Manager.
    - New fund participants should contact DTCC to learn more.

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Best Practices & Frequently Asked Questions

- ***How can I maximize the benefits of the new automation?***
  - Implement Best Practices for funds and firms:
    - Ensure the account is established.
    - Validate that the CUSIP is ACATS-Fund/SERV eligible.
    - Verify fund company participation.
- ***Can this be used for mass transfers?***
  - This enhancement is not intended for mass transfers. Individual participants should work closely together using the Networking Service to facilitate such requests.

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Best Practices & Frequently Asked Questions

- ***Will I need to make programming changes?***
  - Programming may be required for NSCC participants that choose to implement this enhancement.
    - e.g., Record layouts, fund matrix and reject codes
- ***Will agreements need to be amended?***
  - An NSCC rule change was made with the introduction of the enhancement to obviate the need for separate agreements.

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Please answer the polling question.

Thank you

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NSCC Rule Changes

- ICI Transfers Working Group assisted DTCC with rule modifications required for the new ACATS-Fund/SERV Account Transfer capability -
  - Lack of standardization for transfers resulted in numerous indemnification agreements between funds and firms
  - Unilateral and bi-lateral agreements difficult to monitor and keep up-to-date

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NSCC Rule Changes

- Amends NSCC Rule 52 to accommodate the following types of account re-registrations:
  - Transfer of customer fund shares registration (held direct at fund) to be re-registered in the name of a financial intermediary (e.g. broker/dealer bank or other custodian)
  - Transfer of customer fund shares registration held by financial intermediary, to be re-registered as a direct customer position at the fund company

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NSCC Rule Changes

- Transfer of registration
  - Can be requested by an NSCC member in the capacity of receiver or sender
  - Requires the contra-side NSCC Fund Member to accept the re-registration request to complete processing through the NSCC

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NSCC Rule Changes

- Member and Fund Member agree with one another (unless parties agree otherwise) to comply with certain legal responsibilities that are associated with the re-registration:
  - Member initiating request has requisite authorization from account holder – copy provided upon request
  - Indemnifies Fund Member from any liabilities associated with the request (except negligence and misconduct of Member)
  - Re-registrations of IRA and other tax-deferred accounts are made by Members in the capacity of a successor custodian as so-qualified under the Internal Revenue Code

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NSCC Rule Changes

- Submission or processing transfers through NSCC will not extinguish or effect any legal rights of participants arising out of the transaction -
  - Similar to provisions contained in NSCC rules for other mutual fund services:
    - Rule 52, Section 46 – Fund/SERV and ToRA
    - Rule 50, Section 17 relating to ACATS

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NSCC Rule Changes

- NSCC Rules expanded to:
  - Satisfy the legal requirements and provide needed protections for participants
  - Allow ACATS-Fund/SERV Account Transfer participants to rely on new and amended NSCC Rules in lieu of entering into multiple indemnification agreements
  - Support the timely implementation of increased automation for mutual fund transfers processing

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Account Transfers – Future Implementations

- Phase 2
  - Fund company initiated in-kind transfers, including possible revisions to the ToRA service
- Phase 3
  - Complete asset liquidation upon transfer between broker/dealer, bank, and mutual fund companies

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Please answer the polling question.

Thank you

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Questions ???

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- DTCC Contact Information:
  - Your Relationship Manager
  - Wealth Management Services: 212-855-8877
  - http://dtcc.com/products/wealthmgmt/
  - Manuals
  - User Guides
  - Record Layouts
  - Important Notices

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