Investment Company Institute
Webinar
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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

Phase I - Enhancement Approach

- Phase I
  - Firm initiated retirement & non-retirement account reregistrations 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
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

Phase I Transfer Process – In Kind Scenarios

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

PULL Scenario – Fund to Firm

High Level Process Flow:

Dealer Firm (Receiver) Initiator

NSCC

ACATS

NSCC Fund/SERV

Fund Company (Deliverer)

DAY 1

Submits ACATs Position Transfer Request and Fund Registration

Processes Fund Registration Instruction

Transmits registration to Fund Company

Processes the registration

DAY 2-4

ACATS transfer is updated

Receives the record, creates ACATS Fund/SERV file

Sends record to ACATS

Submits record to Fund/SERV
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

High Level Process Flow:

Dealer Firm (Deliverer) Initiator

NSCC

ACATS

NSCC Fund/SERV

Fund Company (Receiver)

Submits ACATS Position Transfer Request

Creates and processes Fund Registration Instruction

Transmits registration to Fund Company

Processes the registration

ACATS Transfer is updated

Receives record, creates ACATS Fund/SERV file

Sends record to ACATS

Submits to Fund/SERV
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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.

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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.

**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.
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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Thank you
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

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
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

• 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
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

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
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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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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