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# Interval Funds: Operational Challenges and the Industry's Way Forward

ICI Broker/Dealer Advisory Committee  
Interval Funds Task Force

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# Interval Funds: Operational Challenges and the Industry's Way Forward

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## Executive Summary

The financial services industry evolves by constantly innovating products and services to meet investor needs. One of these innovations is closed-end “interval” funds. While first permitted as an investment product some 25 years ago, interval funds are receiving renewed attention from fund companies and advisers alike who are seeking increased product and portfolio diversification while providing wider access to less-liquid, longer-term investments that typically make up interval fund portfolios.<sup>1</sup>

Interval funds are subject to the same challenges as other financial products—how to provide innovative products and service them in a scalable, efficient, and investor-friendly operating environment. But interval funds, with hybrid operating attributes between open-end and closed-end funds, are currently challenged in their ability to deliver on these desired characteristics for both interval fund investors and the industry as a whole.

Interval fund offerings are growing at a rapid pace in the mainstream market, placing stress on current industry capabilities to efficiently and effectively support interval fund operations. These headwinds are felt across the servicing environment, arising from interval funds’ unique combination of operating characteristics that do not fully align with prevailing technologies and related service models used for either closed- or open-end funds. Disjointed processes, manual strategies to compensate for lack of automation, and inefficient processing models are a direct result of these factors.

With an increasing number of products and greater interest among intermediaries to expand interval fund availability to suitable investors, many industry participants are increasingly determined to fully understand interval fund operational, distribution, and servicing challenges. Armed with this understanding, these same industry stakeholders are increasingly intent on promoting and pursuing changes that improve interval fund operations and distribution for the entire industry, to achieve better outcomes for fund companies, service providers, intermediaries, and, most important, interval fund investors.

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<sup>1</sup> Unlike many other regulated funds, interval funds and other products subject to Securities and Exchange Commission (SEC) Rule 23c-3 under the Investment Company Act of 1940 (1940 Act) are excluded from liquidity rules and the requirement for written liquidity procedures under SEC Rule 22e-4 under the 1940 Act. See Investment Company Liquidity Risk Management Programs, Investment Company Release No. 32315 (Oct. 13, 2016) at pp. 51–52, available at [www.sec.gov/rules/final/2016/33-10233.pdf](http://www.sec.gov/rules/final/2016/33-10233.pdf). This distinction, coupled with the ability of interval funds to hold alternative assets, among others, has caused some fund companies to reexamine how products like interval funds may complement their product portfolio.

# Introduction

Interval funds are continuously offered closed-end funds that redeem shares by making periodic repurchase offers (“tenders” or “redemptions”) at net asset value (NAV) in compliance with SEC Rule 23c-3 under the 1940 Act, as amended in 1993. They differ from other closed-end funds that do not offer regularly scheduled liquidity (shares are generally sold on a secondary market at a price that could be at a premium or discount to the NAV). Interval fund purchases resemble open-end mutual funds in that their shares typically are continually offered and priced daily.<sup>2</sup>

Interval funds are one way for fund companies to create portfolios with less capital volatility and holding a greater percentage of less-liquid, longer-term investments, often with higher risk-return opportunities than may be readily achieved in open-end mutual funds or exchange-traded funds (ETFs).<sup>3</sup> Fund companies that specialize in creating more illiquid portfolio structures for hedge, private equity, or other alternative (nonregistered) funds may view registered interval funds as a complementary product offering for their investors. Fund companies covering both open-end and alternative investments contribute to interest in interval funds and introduce unique operational and support considerations that are the focus of this paper.

As of fall 2018, data from SEC filings identified roughly 60 interval funds with approximately \$29 billion in assets, and Interval Fund Tracker reported a 50 percent year-over-year growth in interval fund assets under management.<sup>4</sup> This level of growth is creating a significant strain on the industry’s back offices supporting interval funds. In response, the Investment Company Institute’s Broker/Dealer Advisory Committee (ICI BDAC) formed its Interval Funds Task Force, which consists of fund companies offering interval funds, intermediaries, service providers, and the Depository Trust & Clearing Corporation (DTCC)<sup>5</sup> to improve interval fund operational efficiencies and reduce operating risk. The task force developed this white paper to more fully understand the operations environment supporting interval fund investors from the fund, intermediary, and service provider perspectives. This white paper will serve as a foundation to identify and document potential common practices, recommend technology solutions, and pursue additional steps leading to better investor and other stakeholder outcomes when investing in or servicing interval funds.

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<sup>2</sup> Refer to SEC Rule 23c-3 for information on the structure and characteristics of interval funds. See also *infra* “Attributes of Interval Funds.”

<sup>3</sup> Examples of the more illiquid, longer-term investments comprising some interval fund portfolios include direct investment in limited liability companies (LLCs), partnerships or trusts, and real estate and fixed-income investments (e.g., distressed debt, loans, mortgage-backed securities).

<sup>4</sup> Refer to *Mutual Funds*, US Securities and Exchange Commission, [www.sec.gov/edgar/searchedgar/mutualsearch.html](http://www.sec.gov/edgar/searchedgar/mutualsearch.html); Interval Fund Tracker, [www.IntervalFundTracker.com](http://www.IntervalFundTracker.com).

<sup>5</sup> DTCC, through its subsidiary NSCC (National Securities Clearing Corporation), provides clearing, settlement, risk management, and central counterparty services supporting fund companies and intermediaries offering open-end mutual funds, exchange-traded funds, certain closed-end funds such as interval funds, and alternative investments.

## Attributes of Interval Funds

Interval funds hold a unique combination of attributes between traditional exchange-listed closed-end and open-end mutual funds. The following table compares interval funds with these other two categories of funds and highlights where the product operational similarities most closely align.

	Traditional closed-end fund	Interval fund	Open-end fund
<b>PRODUCT/COMPLIANCE CONSIDERATIONS</b>			
Continuously offered	No	Typically <sup>6</sup>	Yes
SEC Liquidity Rule 22e-4	Does not apply	Does not apply	Applies
Illiquid assets allowed	Up to 100%	75%–95% <sup>7</sup>	Up to 15% of net assets
<b>BACK-OFFICE OPERATIONAL CONSIDERATIONS</b>			
Trade pricing/valuation	Market-derived <sup>8</sup>	End-of-day NAV <sup>9</sup>	End-of-day NAV
Purchases	Market demand	Daily or periodically (determined by fund offering policies <sup>6</sup> )	Daily
Commissions/distribution fees	Market-derived	Subject to FINRA Rule 2341 <sup>10</sup>	FINRA Rule 2341 and SEC Rule 12b-1
Liquidity	Market demand on secondary market	Periodic <sup>11</sup>	Daily
Repurchase fees	Not applicable	Up to 2% permitted to cover fund expenses related to repurchase	Permissible under SEC Rule 22c-2 and as stated in prospectus
Repurchase offer limit	Does not apply	5%–25%	Does not apply

As indicated by the chart, interval funds differ from most other closed-end funds in key operational areas. Traditional closed-end fund investor records are managed like other securities—through stock transfer agents and brokerage interfaces to exchanges. In contrast, interval funds typically have leveraged similar operating structures used by open-end mutual funds due to their reliance on a calculated NAV and use of similar approaches to compensate intermediaries for distribution.

<sup>6</sup> While not required, many interval funds calculate a daily NAV to permit shares to be continuously offered, a characteristic that is like an open-end fund.

<sup>7</sup> During the period from when an interval fund sends notification of a repurchase offer until the repurchase pricing date, the fund must maintain liquid assets equal to 100 percent of the repurchase offer amount.

<sup>8</sup> Shares of listed closed-end funds trade based on their market price, often at a discount or premium to the NAV.

<sup>9</sup> The current NAV of an interval fund's common shares must be computed at least weekly. During the five business days preceding a repurchase request deadline, the current NAV of the fund's common shares must be computed daily.

<sup>10</sup> An interval fund may also be able to rely on and be required to comply with Rule 12b-1 under the 1940 Act if it receives SEC exemptive relief to permit it to impose asset-based distribution or service fees and early withdrawal charges.

<sup>11</sup> Interval funds must adopt a fundamental policy to repurchase shares on 3-, 6-, or 12-month frequencies (additional frequencies may be permitted by SEC exemptive order).

Within interval funds themselves, further examination identifies significant operational differences between products. The accumulation of these differences leads to operational complexity, customized systems, platforms, and support models across the industry that reduce efficiency and may lead to confusion when distributing and servicing interval funds and their investors.

Key characteristics of interval funds, including notable operational differences, are described below:

- » **Repurchase frequency.** Scheduled quarterly, semiannually, or annually, with additional variability as to when, within the scheduled period, the repurchase period ends.<sup>12</sup> For example, a quarterly repurchase may fall at month-end in January, April, July, and October. Or it may fall on another date in February, May, August, and November. Such variation is operationally challenging because there is no systematic method for communicating fund repurchase schedules with intermediaries, thus leading to manual processes by which those dates are managed.
- » **Repurchase period.** The period from the date the fund will begin accepting repurchase orders to the repurchase request deadline. Please refer to **Exhibit A** (on page 5)—a chart illustrating the typical repurchase offer timeline that highlights the potential variability in duration of the repurchase period.
- » **Repurchase pricing date.** The repurchase pricing date is the date on which the NAV to be used for the repurchase is calculated. The repurchase pricing date generally must occur no later than the 14th day following the repurchase request deadline. The fund company determines the exact repurchase pricing date.
- » **Valuation.** Funds are generally priced daily, weekly, or monthly, as specified in the fund’s prospectus.
- » **Repurchase prenotification.** For funds that require repurchase requests to be submitted prior to the repurchase pricing date, requests submitted during the repurchase period are binding (“approved orders”). Approved orders are reconciled with trades received on the repurchase pricing date to ensure that all trades are placed, and no new trades (“non-approved orders”) are received. This practice is further described in this paper’s *Cash Flow Reporting and Prenotification* section.
- » **Proration.** If repurchase requests exceed the number of shares that a fund offers to repurchase during the repurchase period, repurchases are prorated (reduced by the same percentage across all trades) prior to processing.

Funds may determine the need to prorate and calculate their proration factor—the percentage of each repurchase order that may be honored based on the repurchase offer—soon after the repurchase period closes. If the fund requires repurchase prenotification, it determines the need to prorate based on approved orders. Funds with repurchase prenotification must fully reconcile approved versus non-approved orders received on the repurchase pricing date, to ensure only approved orders for the correct amount are accepted as in good order for processing.

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<sup>12</sup> Interval funds must adopt a fundamental policy to repurchase shares on 3-, 6-, or 12-month frequencies (additional frequencies may be permitted by SEC exemptive order).



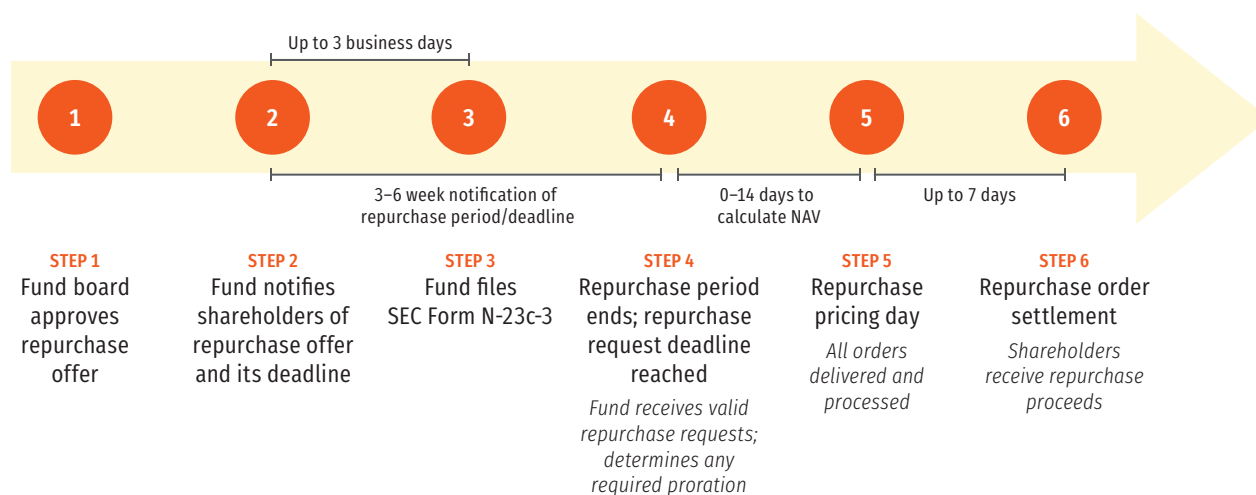
Funds that set the repurchase request deadline date on the same day as the repurchase pricing date (e.g., they do not require repurchase prenotification) monitor activity throughout the repurchase period and must decide whether proration applies by close of business on the repurchase pricing date (also the repurchase request deadline date). While the reconciliation of approved versus non-approved orders is not needed in this scenario, fund companies have less advanced visibility into anticipated fund activity and less insight into potential failed or missing trades that are otherwise valid but may not be received by the fund until the next morning (e.g., due to transmission or other errors).

- » **Settlement.** The fund must pay repurchase proceeds to shareholders anywhere between one and seven days following the repurchase pricing date.

As noted in the characteristics above, the repurchase process is a critical aspect of interval fund operations. Exhibit A provides a high-level illustration of a typical repurchase offer life cycle, from board approval of a repurchase offer through payment of repurchase transaction proceeds to shareholders.

## EXHIBIT A

### Repurchase Offer Life Cycle



Because of the many steps involved in trading interval fund shares, the method for trade submission is especially important from both an accuracy and an efficiency perspective. The following section considers the methods for trade submission used by industry participants.

## Methods of Trade Submission

Like 1940 Act open-end mutual funds, fund companies offer interval funds to intermediaries or directly to investors through one of two ways:

- » Using a trading network or other technology with an intermediary as the trading counterparty, such as NSCC's Alternative Investment Product (AIP) platform, NSCC Fund/SERV, and other proprietary/third-party trading networks.
- » The exchange of documents and more traditional payments (e.g., check, ACH, federal funds wire), where either the investor, their financial adviser, or an intermediary back office is the trading counterparty. This method of trading is often referred to as “check and application.”

The following sections describe the main trading solutions leveraged by industry participants today in support of interval funds, highlighting how each method addresses interval fund operational challenges such as periodic repurchases and proration. The lack of one comprehensive industry utility with the requisite functionality for interval fund processing, combined with differing opinions across counterparties regarding the best approach for ongoing support, has led to the proliferation of different business and trade processing models.

### Alternative Investment Product (AIP) Solution

Launched in 2008, the AIP is offered by DTCC's Wealth Management Services. Initially designed for unregistered alternative investment products that may have limited liquidity or that are not continuously offered, AIP is one option to provide straight-through processing of financial products with limited liquidity. For this reason, some funds and intermediaries have elected to use AIP to support interval funds, even though the interval fund is a registered product under the 1940 Act.

AIP allows intermediaries to submit and warehouse interval fund repurchase activity prior to and throughout the repurchase period, while providing funds with transparency into transaction status. This makes it possible to view anticipated activity prior to the repurchase deadline and determine whether proration may be needed.

AIP is a newer service, so users often are still implementing its various capabilities, but the service continues to mature through enhancements and new functional capabilities. Because of the variable nature of settlement among alternative investment products that make up the service's target market, AIP trade settlement is separate from and not netted with other DTCC activity. Therefore, there are fewer interval fund counterparties who solely use AIP. In a recent survey<sup>13</sup> of industry participants, including intermediaries, fund companies, and service providers, responses showed that approximately 40 percent use the AIP platform, among other solutions, to support interval funds. Approximately 10 percent of responses noted that AIP is the sole solution for interval fund trading, clearance, and settlement activities. A review of activity on the AIP platform for a 90-day period between November 2018 and January 2019 shows that approximately \$18.6 million across 383 trades settled through the service.

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<sup>13</sup> At the direction of the Interval Funds Task Force, ICI invited task force members as well as members of ICI's operational committees that support interval fund operations to complete a survey during August and September 2018 on various operational practices. Respondents self-selected into the survey and provided data when available and—in the case of service providers—when allowable by contract. Aggregated survey results are cited. Survey results are provided for context only and should be viewed as one data point among many in the evaluation of the current state of interval fund operations.

## Repurchases and Proration Through AIP

When accepting a fund repurchase offer, the interval fund investors or their financial advisers generally submit repurchase paperwork through the intermediary's back office. Once paperwork is deemed in good order, the back office will forward the paperwork to the interval fund company or transfer agent for processing. The fund company or transfer agent will track repurchase requests, consider whether proration is necessary, and then process and remit to the intermediary the repurchase proceeds, once settled. While trading and settlement are currently manual, DTCC is working with broker-dealers, fund companies, administrators, and custodians to automate general redemption (interval fund repurchase) transactions through AIP in 2019.

## Fund/SERV

The NSCC Fund/SERV platform was created in 1986 and is the industry utility for processing open-end 1940 Act-registered funds, UCITS, and insurance product transactions. Fund/SERV facilitates high-volume, efficient processing, and automatic money settlement for fund companies, broker-dealers, banks, trust companies, third-party administrators, and insurance companies. Given its maturity and decades-long use by the fund industry, Fund/SERV is deeply integrated into both fund and intermediary back-office operations.

When interval funds were first introduced in 1993, the industry, in working with NSCC, did not prioritize corresponding changes to Fund/SERV that would fully automate periodic repurchase capabilities. This gap remains today and limits Fund/SERV's ability to support this critical part of interval fund operations. While Fund/SERV included tender offer<sup>14</sup> functionality whereby industry participants could submit a trade for future processing, the functionality was not widely used and is not currently active. For this reason, Fund/SERV's structure around periodic repurchase trading rules requires frequent manual adjustment that creates significant operating risk for interval fund counterparties. However, Fund/SERV's existing integration into the mutual fund industry's trading and recordkeeping technologies, availability of net settlement, and efficient account setup, maintenance, and trading capabilities are significant benefits that many interval fund counterparties use to create efficiencies and manage risk in other areas outside of trading. Nearly 90 percent of industry survey respondents noted that they use Fund/SERV to support interval fund processing, with 60 percent using Fund/SERV exclusively in their models to support interval funds. A review of interval fund activity on the Fund/SERV platform for a 60-day period between December 2018 and January 2019 reveals that approximately \$1.67 billion across 64,500 interval fund trades settled through Fund/SERV.

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<sup>14</sup> Fund/SERV tender offers allow a fund to control the redemption of outstanding fund shares by setting specific time periods when shares may be redeemed.

## Repurchases and Proration via Fund/SERV

Interval funds traded through Fund/SERV require counterparties to frequently change system controls to allow repurchases to be remitted by intermediaries for processing only on the repurchase pricing date. Trade warehousing is not available within Fund/SERV. In addition, funds will often limit certain Fund/SERV features for interval funds that are common for other 1940 Act funds due to difficulties when determining whether proration is necessary or when managing repurchase periods (e.g., DCC&S<sup>15</sup> trades or settlement overrides). Many funds that do not require binding notification (i.e., repurchase prenotification) during a repurchase offering period will also turn off same-day Fund/SERV trade confirmations on the repurchase request deadline/repurchase pricing date when trades are received in order to ensure—if proration is required—that only one correct confirmation is sent to counterparties. This delays customer confirmations by at least one business day—or until the repurchase transaction is confirmed.

## Transmissions and Internet Portal Use (API, FTP Websites)

Some industry participants seek to address any functional gaps they may experience with solutions like AIP and Fund/SERV to fully support interval funds by using third-party trade portals and direct trade transmissions between counterparties. To date, however, there is minimal use across the interval fund industry, across distribution channels. Transmissions are largely used to exchange account setup information or repurchase prenotification between counterparties. Trades are typically sent through the AIP or Fund/SERV solutions because they are more familiar, scalable, and thus cost-efficient for both fund companies and intermediaries.

The technology to accommodate interval fund trading via portals has been developed by numerous industry participants, including transfer agents and other service providers. The fund company can choose from a range of data transmission options, including (for example) application programming interface (API), secure file transfer protocol (SFTP), or business service layers (BSL) to receive direct data transmissions or data files or form images electronically dropped into a web portal or database for retrieval. Approximately 8 percent of survey respondents use a point-to-point transmission or web portal entry to facilitate the exchange of information. This figure is weighted toward respondents that primarily support alternative investment products.

In addition to normal business activities pursued between counterparties (e.g., asset manager/agent and intermediary), use of stand-alone portals or transmissions may require additional technological infrastructure to be initiated and maintained for the relationship. Such arrangements may increase cost and add operational complexity.

## Repurchases and Proration via Transmissions and Portals

For repurchase offers, portals and transmissions are used for advanced liquidity reconciliation and repurchase form completion from the investor or financial adviser. Trade portals can be used by the counterparties for trade reconciliation, depending on the fund's repurchase period and NAV requirements for the repurchase.

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<sup>15</sup> DCC&S transaction activity reflects the net impact of the previous business day's transactions received by retirement recordkeepers and omnibus intermediaries that were processed on recordkeeping and subaccounting systems through nightly processing cycles and typically transmitted to funds through a series of Fund/SERV cycles occurring in the early morning on T+1. DCC&S transactions are settled on date of receipt; confirmed trades are automatically included with that day's net settlement activity.

## Check and Application

Accounts set up via physical application forms processed by the fund's transfer agent are often referred to as "check and application" business. Applications are completed by an investor or the financial adviser and usually mailed to the transfer agent with a check to fund the investment. Trades may be placed using mail, fax, phone, or (in some instances) email and are manually intensive and less efficient when compared to industry solutions like AIP or Fund/SERV. While the open-end mutual fund industry has significantly moved away from manual processing and the risks associated with it, this method continues to be prevalent for the creation of interval fund accounts and transactions. Survey respondents noted greater use of manual methods to supplement the use of AIP (50 percent), reflecting its less-mature status of overall development. The wider availability of comprehensive Fund/SERV functionality for new account opening and account maintenance allows respondents to reduce the need for manual protocols, such as "check and application" (20 percent), within their operational models.

## Repurchases and Proration via Check and Application

Repurchase requests are mailed, faxed, or emailed to the transfer agent. The completed forms are queued for processing. On the repurchase pricing date, the repurchase orders are manually processed. The transfer agent pays repurchase proceeds by check or ACH/wire and mails the related transaction confirmation.

In this model, the fund company often elects to set a repurchase pricing date during the permissible 14-day period after the repurchase request deadline. As an example, if the repurchase deadline is on the seventh of the month, the fund company may set a repurchase pricing date of the 21st. Repurchase requests received after the seventh would not be considered in good order. During this period, the transfer agent and fund company would determine whether proration is necessary. If so, proration is calculated, trades are processed by the transfer agent, and trade confirmations are mailed after the repurchase pricing date with the prorated amount.

While this model gives the fund company the option to set a later repurchase pricing date to provide more time to determine proration, this action further restricts investor access to funds and may adversely affect fund distribution. Regardless of timing, manual processing potentially increases operational risk, especially for organizations experiencing a relatively high volume of interval fund transactions.

## Operational Risks and Challenges

The Interval Funds Task Force identified operational challenges that affect interval funds. These areas include the following:

- » Platform registration
- » Trade calendaring and warehousing
- » Cash flow reporting and prenotification
- » Proration
- » Trade corrections
- » Dividend and distribution payments
- » Share classes and share class conversions
- » The exchange of account position and transaction activity between counterparties

The following sections outline various practices in servicing today's interval funds and serve as a foundation to identify best practices and potential solutions to resolve the many challenges faced by interval fund operations.

### Platform Registration

Fund companies that choose to use AIP or Fund/SERV to support interval fund operations and distribution must register the interval fund at DTCC and may request placement on one or both platforms.<sup>16</sup>

### Alternative Investment Product (AIP)

Following confirmation that the membership application for the fund company or its administrator has been accepted, the interval fund may be registered by submitting a Security General Record to AIP, either through file upload or directly into the AIP web interface. The Security General Record establishes the interval fund's processing attributes, including the list of eligible intermediaries who can offer/trade the interval fund. DTCC assigns a unique 16-digit number called a Security Issue Number (SIN) to the interval fund, used for trading via AIP. This is a common practice for alternative products that typically do not have a uniquely assigned identifier, such as a CUSIP,<sup>17</sup> used for open-end mutual funds and registered interval funds.

### Fund/SERV

Assuming the fund company is already an NSCC member authorized for Fund/SERV, the process for registering an interval fund is the same as for an open-end mutual fund. The same Security Issue Forms are used to add, modify, or remove a CUSIP from Fund/SERV registration.

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<sup>16</sup> Other platforms and proprietary networks may also have similar registration requirements.

<sup>17</sup> A CUSIP (Committee on Uniform Securities Identification Procedures) number identifies most US-registered financial instruments and is used to facilitate the clearance and settlement process of securities.

There is no unique identifier for interval funds held on Fund/SERV. If Security Type “1940 Act Registered Fund” is selected when registering the fund, it must be qualified by these five options (with corresponding code):

- » Load Fund (025)
- » No load Fund (026)
- » Money Market Fund (024)
- » Closed End Fund (027)
- » UIT (Unit Investment Trust) (015)

Although an interval fund is a closed-end fund, Fund/SERV processing rules associated with this code (027) would create unintended processing consequences for the interval fund. It is most common to use Load Fund (025) or No load Fund (026) when the interval fund is registered, although fund companies with questions should discuss this with their DTCC relationship manager.

## Considerations

While the process for an interval fund launch with the DTCC mirrors that of other load or no-load funds, registrants should be aware of common operational challenges related to registration, regardless of platform:

**Effective date delays.** Fund approval and effective date of the interval fund may be delayed because of multiple filing updates or the need to obtain an SEC exemption for an interval fund to offer multiple share classes (this exemption is not required for 1940 Act mutual funds). Additional considerations should be made for unique selling agreements with intermediaries and other related intermediary requirements for interval fund products.

**CUSIPs vs. SINs.** A fund company may choose to support an interval fund on both Fund/SERV and AIP. As previously described, industry participants routinely use different (and sometimes multiple) platforms to support interval funds. Funds that offer an interval fund on both platforms or intermediaries who support interval funds should be aware of these related operational complexities:

- » A CUSIP may not be registered on both Fund/SERV and AIP. Funds on both platforms would use the CUSIP on Fund/SERV and the SIN on AIP. These unique identifiers are not transferable between platforms (e.g., CUSIP on AIP or SIN on Fund/SERV).
- » Intermediaries that trade the interval fund via AIP should be aware that information about the interval fund will typically be published under the CUSIP, not the SIN. This includes but is not limited to performance reporting, NAVs, dividends, tax reporting, corporate actions, etc.
- » Repurchases on Fund/SERV follow straight-through processing, and trades are automatically included in settlement. AIP repurchases are processed and settled manually. DTCC is working with AIP intermediaries, fund companies, and service providers to automate repurchase transactions in 2019.
- » Settlement on Fund/SERV is generally T+1, while it is often T+3 on AIP.
- » There are share portability challenges between intermediaries and accounts when the “from” and “to” accounts trade through different methods. For example, transfers between Fund/SERV, AIP, as well as check and application-created accounts all require manual intervention.
- » Because of the divergence between CUSIPs and SINS within Fund/SERV and AIP, respectively, automated processing around ACATS<sup>18</sup> transferability and lot tracking is not possible.

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<sup>18</sup> The DTCC Automated Customer Account Transfer Service (ACATS) is a system that automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm or bank to another. ACATS interfaces with Fund/SERV but not with AIP.

## Trade Calendaring and Warehousing

Trading periods for interval funds have a start and end date, defined and communicated in advance by the fund company, and are typically referred to as subscription (purchase) and repurchase (redemption) periods.

- » **Subscription periods.** While many interval funds price and accept orders daily, some may adopt periodic purchases and pricing. There is usually no maximum purchase limit into the fund. Purchase orders may be accumulated by the fund or service provider and processed once the NAV is calculated.
- » **Repurchase periods.** Funds define and adhere to a repurchase calendar that documents important dates for repurchase events. All dates are communicated based on repurchase period frequency (e.g., quarterly, annually) and tracked by industry participants, including intermediaries, service providers, investment advisers, and underlying investors. To be included in the repurchase offer, investors must submit their repurchase request between the date the fund begins to accept orders and the repurchase request deadline.

Fund companies use different considerations to select repurchase dates. They may consider the timing of board meetings and approvals necessary to file repurchase events.<sup>19</sup> Dates may align with a dividend date, month-end or quarter-end date, or the fund company may select a mid-month date where regular processing volumes are generally lower. Fund companies may develop various processes and workflows to support the repurchase period frequencies and dates, many of which are manual in nature.

Repurchase processing represents the most significant distinction between interval funds and open-end mutual funds and has unique challenges with both trade processing and investor understanding. Repurchase periods require engagement of funds and intermediaries to distribute the relevant information to investors and their financial advisers. This often requires a synchronized approach across various teams and systems, including but not limited to management of trading calendars, security master systems, trading applications, service providers, operational departments, and communication to affected investors and client-facing business channels. Some of these actions may be manual. If one or a combination of steps are missed, intermediaries should note that funds may be unable to accommodate as-of (backdated) repurchase orders because they would affect proration calculations or conflict with prospectus guidelines. Revisions or missed orders may need to be processed during the next repurchase offer, adversely affecting the investor experience and creating market exposure to intermediaries or investors.

The term “warehousing” relative to interval fund processing is the “queuing” and holding of orders received during a subscription<sup>20</sup> or repurchase period for future processing on the subscription or repurchase pricing date, respectively.

Depending on how warehousing is managed, it may improve fund company awareness of and transparency into overall investor interest in the repurchase event and allow intermediaries to mitigate risk with processing and system complexity. Warehousing can present challenges because of the manual management of documents and steps

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<sup>19</sup> Rule 23c-3 requires interval fund boards to approve repurchase amounts for each repurchase offer “before each repurchase offer.” Accordingly, with respect to interval funds with quarterly repurchase offers, for example, many interval fund boards consider such approvals at each quarterly meeting even if the repurchase amount does not vary.

<sup>20</sup> Interval funds that support daily subscriptions do not warehouse subscription orders.



associated with compiling the information, including the potential for investors to rescind or revise open orders during the repurchase period. Depending on capabilities, warehousing of orders may be completed by any of the parties to the transaction:

- » **Fund company.** For those with a binding repurchase prenotification (e.g., requiring “approved orders”), the fund company may aggregate the orders throughout the repurchase period. If proration is required, approved trade amounts are communicated by the fund company to the investors and their financial advisers.
- » **Service provider.** Whether or not there is a binding pre-notice, a service provider may queue orders in its system a variety of ways: through the AIP platform (if the fund is AIP-eligible and the service provider is connected to the platform), through proprietary databases, or through workflow or recordkeeping systems.
- » **Intermediaries.** Some intermediaries are able to queue orders in their trading systems.

As previously mentioned, Fund/SERV has a tender function that has elements of functionality needed to effectively manage interval fund repurchase periods; however, this function is not currently active and does not permit the submission of future-dated trades for trade warehousing. When trading via Fund/SERV, counterparties must update their respective systems to “open” the fund to Fund/SERV repurchases on the repurchase pricing date, and repurchase requests (i.e., orders) are submitted on that day. The process is followed whether the repurchase pricing date falls on the final day of the repurchase period (i.e., repurchase request deadline) or up to 14 days after the repurchase period.

When the repurchase period deadline is also the repurchase pricing date, fund companies have minimal transparency into expected repurchase activity prior to the repurchase pricing date. This raises significant risks for counterparties, given the same-day synchronization necessary across systems and organizations for success. From an investor and financial adviser perspective, repurchase requests are compressed into one day (instead of multiple days or weeks leading into the period’s closing), increasing operational risk with managing to the specific trade date and, if the trade date is missed, potential market exposure (gain/loss) until the next repurchase period opens. Likewise, fund companies are not able to anticipate the need to prorate activity until after all trades are received and deemed in good order. If proration is needed, it is determined later in the business day. As a result, trading confirmations for the prorated amounts may be delayed, and investors will need to be quickly notified that their full repurchase request cannot be honored.

Alternatively, when the repurchase request deadline occurs before the repurchase pricing date, fund companies can determine and communicate any prorated trade amounts on investor/intermediary repurchase requests. Intermediaries trading through platforms will submit the actual trades with the prorated trade amounts on the repurchase pricing date, while investors and intermediaries trading by check and application will await the fund’s processing of their prorated purchase request on the repurchase pricing date. The fund company must reconcile all trades received on the repurchase pricing date to the repurchase requests received during the repurchase period. Any trades received for an incorrect amount (e.g., proration not applied) or from an unauthorized party (e.g., a party that did not submit a repurchase request during the repurchase period) must be rejected.

Fund companies should consider warehousing challenges when determining repurchase periods and prenotification policies, as well as the methods used to communicate them to investors and financial advisers alike. It is important for investors/advisers to be educated about an interval fund’s subscription and repurchase policies and the responsible parties for trade submission and management.

## Cash Flow Reporting and Prenotification

When a fund company issues a repurchase notice, the fund must hold the repurchase offer amount in liquid assets within the fund portfolio per SEC Rule 23c-3(b). As the repurchase request deadline date approaches, insight into upcoming repurchase activity helps the fund prepare for fulfilling the repurchase offer. With this portfolio management requirement in mind, and to gather a proactive view into the anticipated investor interest with respect to the repurchase period, fund companies may require prenotification of investor intent to participate in the repurchase period. This requirement typically is clarified either through operational agreements or with prospectus language. Some fund companies request a courtesy notice prior to the repurchase request deadline. Prenotification requirements typically are driven by whether the pricing date falls on a date after the repurchase request deadline, as described below.

There are two main types of prenotification notices—binding notices and courtesy prenotices:

- » **Binding notice.** If the repurchase pricing date falls after the repurchase request deadline, the notice the investor submits during the repurchase period is a binding commitment to submit a corresponding repurchase on the repurchase pricing date. This is also known as an “approved order.” Once the repurchase request deadline passes, no additional requests are accepted from shareholders. The fund company determines whether proration is necessary and communicates final repurchase amounts to investors and their financial advisers. On the repurchase pricing date, orders received are matched to notices received—a time-consuming, often completely manual reconciliation task. Trade processing and, if traded through NSCC, net settlement may be delayed due to high volumes, unclear instructions, or when trade and binding notice amounts do not match.
- » **Courtesy prenotice.** If the repurchase pricing date and the repurchase request deadline fall on the same day, a fund company may request nonbinding courtesy prenotices prior to the repurchase request deadline. Fund companies typically receive limited insight into repurchase activity with courtesy prenotices. Repurchase events may yield different response rates, and flow visibility will vary from event to event. On the repurchase request deadline, repurchase flows are monitored throughout the day. At the end of the day, the fund evaluates all trades deemed in good order and determines whether proration is required. Orders received are not matched to prenotices, so processing and settlement are generally faster than for binding notices.

Repurchase prenotification may be sent by the investor or the investor’s adviser following fund procedures and typically are delivered via fax, email, or through a fund company’s website portal, if available. The notification process is most commonly managed directly by the investor or adviser; the notice generally does not involve participation from the intermediary’s back office, which holds the interval fund assets in custody on behalf of the investor/adviser. However, the investor/adviser must place the repurchase by the repurchase deadline date through the intermediary’s back office.

## Proration

Repurchase requests, when exceeding the number of shares the fund offers to repurchase for that period, will be prorated. All requests will be proportionally decreased to match the overall maximum amount the fund offers to repurchase during the repurchase period. For funds that align the repurchase request deadline and repurchase pricing date on the same day, notification of proration will usually not be made until late in the evening on the repurchase pricing date or, in some cases, not until the next day. For interval funds that require the binding notice prior to the repurchase request deadline, proration is determined prior to the repurchase pricing date (because it typically falls up to 14 days after the repurchase request deadline), and investors or financial advisers submit the approved trade amount on the repurchase pricing date. The frequency of proration required by a fund varies depending on several factors, which may include market conditions and the percentage of shares eligible for repurchase.

### Determining a proration percentage

The proration percentage is a simple calculation made when aggregate repurchase orders exceed the amount authorized/allowed by the fund's board of directors.

#### EXAMPLE

Fund value: \$10 million

Maximum allowable percentage/dollars for the repurchase period: 10 percent or \$1 million

During the repurchase period the fund collects repurchases totaling \$2 million.

In the above example, the amount of repurchases received by the fund equals 20 percent of the fund's assets. This represents twice the allowable amount for the period (assuming the fund decides not to repurchase more than the 10 percent offered in accordance with Rule 23c-3(b)<sup>21</sup>). As a result, the fund company would prorate all repurchases so that everyone would receive 50 percent of what they requested, and the fund would repurchase 10 percent or \$1 million.

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<sup>21</sup> If shareholders tender more than the repurchase offer amount, the fund may repurchase additional shares equal to no more than 2 percent of the shares outstanding on the repurchase request deadline. If the fund decides not to repurchase additional shares, or if the shareholders tender an amount of shares greater than the repurchase offer amount plus 2 percent, then the fund must repurchase shares on a pro rata basis.

## Sample proration process

As previously noted, fund companies can confirm whether proration is needed only after receipt of all trades for the repurchase event. The following outlines a fund company's sample proration process for a fund that requests a courtesy pre-notice with a repurchase request deadline on the same day as the repurchase pricing date, although the steps are similar for a fund that requires binding notification of repurchase trades prior to the repurchase pricing date.

- A. Fund companies will collect all repurchase requests received during the repurchase period through the repurchase pricing date (i.e., the repurchase request deadline) unless otherwise specified by the fund prospectus or contractual arrangement.<sup>22</sup>
- B. If the repurchase requests outnumber the number of shares the fund has offered to repurchase, the fund company may opt to
  - a. prorate all orders to meet the offering amount, or
  - b. repurchase additional shares equal to not more than 2 percent of the shares outstanding on the repurchase request deadline. The process for making such determination varies by fund policies and could entail convening the board for discussion and approval.<sup>23</sup> Proration may still be necessary if the properly submitted repurchase offers exceed the total offering amount, including the additional 2 percent of outstanding shares.
- C. The prorated percentage is used to confirm and settle repurchases and should be communicated to intermediaries as soon as possible.
- D. Depending on the proration decision and related steps needed to adjust any trades, the fund company may have to delay sending confirmations of the repurchase transactions for a number of days. Funds should keep their intermediary partners and investors informed about delays.

## Proration's effect on intermediaries

The proration process often leads to delayed trade confirms, execution of trades, and settlement. This can lead to concern and anxiety on the part of investors or financial advisers regarding the status of repurchase requests. When proration occurs, it also introduces complexity and manual intervention to intermediary reconciliation.

Investor education is critical to addressing inquiries and alleviating concerns. For example, investors and advisers should be aware that liquidity is limited to repurchase periods and that repurchase proceeds are subject to proration. Investors and advisers should be aware that the fund may need to prorate consecutive repurchase periods, thereby requiring multiple repurchase requests over multiple offerings for the investor to receive the amount originally requested.

Prorated repurchases may affect many constituents. Clear, consistent communication is recommended to all affected parties. Because of an often-condensed proration time frame and the number of steps involved, fund companies should have detailed proration procedures that are reviewed regularly to ensure that they are current and ready to be invoked.

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<sup>22</sup> For funds trading through NSCC Fund/SERV, orders must be received by the fund prior to or in the final trading cycle of the day (this is known as Fund/SERV cycle #98—received at approximately 8:00 p.m. ET); those deemed in good order by the fund are accepted for repurchase processing. Since proration needs cannot be determined until all trades are received and analyzed, funds may choose to turn off same-day confirmation of Fund/SERV orders (typically generated by 7:30 p.m. ET) on the repurchase pricing date.

<sup>23</sup> Note that fund boards may decide to provide general authorization to the fund's investment manager to determine whether redeeming up to 2 percent additional shares is appropriate.

## Trade Corrections

Occasionally, corrections for repurchases are necessary for trades that were either submitted incorrectly or potentially not submitted at all by the firm (e.g., due to a trading system transmission issue). This section describes the challenges with repurchase corrections, which tend to resemble workflows more closely aligned with alternative investments than 1940 Act-registered open-end fund products.

Challenges:

- » After the repurchase period closes, corrections typically are restricted, limited, or unavailable due to fund prospectus or trading policy considerations. This contrasts with open-end mutual funds that usually may be corrected over a period.
- » Trade corrections from intermediaries can be challenging because of the structure of interval funds, which have varying degrees of flexibility. Some funds require corrections to be placed within a short period of time after the repurchase period or may not offer a correction window at all.
- » Trade corrections over a proration event add an additional layer of complexity for fund companies, intermediaries, service providers, investors and their financial advisers.
- » If a repurchase date is missed and fund policies or the prospectus preclude processing a trade correction, intermediaries have two options:
  - » The repurchase request may be processed on the next repurchase date. This leaves the intermediary and the investor or the financial adviser subject to unknown market risk and a less-than-ideal investor experience.
  - » The corrected trade is reflected in the investor's account at the intermediary. In this scenario, the intermediary assumes the financial risk by funding the trade until the next repurchase date, which could be months or up to a year away.

These financial risks emphasize the importance of sound communication practices, investor and financial adviser education, and clear operating procedures to prevent missed repurchase trades.

During the recent survey of interval fund industry participants, most intermediaries characterized trade correction processing for interval funds to hold operational risk through gain/loss exposure and subject to diverse rules across fund companies. However, approximately 40 percent of fund company survey respondents noted that their correction policy may allow for intermediary-initiated trade corrections caused by intermediary or investment adviser error. There appears to be an opportunity for fund companies and intermediaries to review and clarify trade correction policies to achieve the best possible outcome, as permitted by fund prospectuses and related policies.

## Dividends

Like open-end mutual funds, interval funds accrue and pay dividends. They may accrue daily or pay on a periodic basis based on a record date. Investors may choose to receive dividends in cash or reinvest them into their account. Unlike open-end mutual funds, however, shares earned by dividend reinvestment may not be redeemed until the next repurchase period.

For omnibus intermediaries,<sup>24</sup> dividends in the omnibus account pose a processing challenge. Generally, more investors reinvest dividends than receive them in cash. In the traditional open-end mutual fund environment, dividends are generally reinvested in the firm's omnibus account, and shares are redeemed for cash the following morning to pay investors who have elected to receive cash dividends. Because interval fund shares acquired through reinvested dividends cannot be redeemed until the next repurchase event, omnibus intermediaries must receive dividends in cash to pay underlying investors, while purchasing the majority of the dividend amount back into their omnibus account for investors who reinvest. The subscription typically occurs at the next available subscription period; in many instances, this is the next business day. Therefore, intermediaries have an opposite process for managing interval fund distributions than that used for the typical open-end mutual fund. If the intermediary's reinvested dividend amount is significant, the fund company should be prepared to manage larger inflows into the fund portfolio during the next subscription period (often the morning after a dividend event).

Non-omnibus intermediaries typically hold positions at either Networking Level 3<sup>25</sup> or individual "direct-at-fund" on the transfer agent's books. Each customer's dividend options are coded at the account level to either pay cash or reinvest, and the transfer agent processes the dividend for each customer. As a result, placing an offsetting transaction for cash or reinvest investors is not required for these accounts.

## Share Classes and Conversions

Rule 18f-3, which allows mutual funds to offer multiple classes, does not apply to interval funds. However, interval funds may offer multiple classes and take advantage of certain other exemptive rules available to open-end funds (e.g., Rule 12b-1) if the SEC grants exemptive relief. Pursuant to such relief, and consistent with mutual funds, interval funds may support various distribution channels by offering multiple classes with different fees and expenses for different types of investors. For example, front-end sales charges, contingent deferred sales charges (CDSCs), breakpoint discounts, and 12b-1 fees are all potentially available to interval fund share classes.

### Share Class Conversion Considerations

A share class conversion is when assets are moved from one share class of a fund to another class of the same fund, such as moving an account of an investor who now qualifies for a lower-expense class. An adviser constantly evaluates the appropriate share class for each investor and, based on eligibility, may convert investors from one class to another

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<sup>24</sup> Omnibus intermediaries hold one or a few accounts in the name of the financial intermediary on a mutual fund transfer agent's record of fund accounts. The intermediary maintains underlying shareholder account information on its own recordkeeping systems and often aggregates underlying shareholder activity when transacting with the fund. The intermediary or its agent handles all communications to and servicing of its customer accounts.

<sup>25</sup> Broker-dealers and other intermediaries handle all orders, customer statements, and reporting and maintain full customer account control of NSCC Networking Level 3 accounts. Although the position is held by the fund's transfer agent as a separate account, the underlying customer has no direct privileges with the fund company.

depending on the asset balance, fees, overall sales charge, and the holding period of the fund. Investors and financial advisers should consider the following factors if they are considering a share class conversion:

- » If an account balance rises above a share class minimum and meets other class requirements, the account may be converted to a lower-expense share class. Conversely, if the minimum balance in an account held in one share class no longer meets the class requirements, the account may be converted to a different share class.
- » Interval product availability through each distribution channel is uniquely determined by each intermediary. Investors may access different classes depending on their eligibility for advisory, brokerage, retail, or other distribution channels supported by an intermediary.
- » Rules in the fund prospectus or Statement of Additional Information outline conversion eligibility, potential tax consequences, share class minimums, and the expenses/fees associated with each class. Investors and financial advisers should be aware of both the availability and the timing of share class conversions. For example, some interval funds may permit share class conversions only during a repurchase period.
- » Operational counterparties should note that most share class conversions for interval funds are processed manually. Repurchase restrictions often preclude the use of available automated solutions, such as those through Fund/SERV.

## Fund Exchanges and Sales Charge Waivers

Interval funds may offer investors with proceeds from the repurchase of one class of a fund to purchase the same class of another fund within the same fund family without a sales load. Investors and their financial advisers should review the prospectus to determine eligibility.

## Position, Transaction, and Sales Data Transparency

As with open-end mutual funds, the ability to reconcile interval fund activity between fund companies and intermediaries is critically important. Further, fund companies benefit from receiving sales data to understand and support their distribution network. Each method of trading may have different ways to achieve transparency, as described below:

- » **AIP.** Position, activity, and transactions files are processed electronically through the AIP platform on an agreed-on schedule. Sales reporting is often derived from transaction files as well as supplemental data that intermediaries provide to fund companies.
- » **Fund/SERV.** Intermediaries use daily position, activity, and dividend (distribution) records received from funds through NSCC Networking<sup>26</sup> to facilitate reconciliation. Omnibus intermediaries often provide subaccount reporting to funds through activity and position records. Files are often delivered through the NSCC's Omni/SERV platform<sup>27</sup> or transmitted directly from the intermediary (or its service provider) to the fund.

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<sup>26</sup> Refer to the DTCC website for more information on NSCC Networking. *Networking*, DTCC, [www.dtcc.com/wealth-management-services/mutual-fund-services/networking](http://www.dtcc.com/wealth-management-services/mutual-fund-services/networking).

<sup>27</sup> Refer to the DTCC website for more information on Omni/SERV. *Omni/SERV*®, DTCC, [www.dtcc.com/wealth-management-services/mutual-fund-services/omni-serv](http://www.dtcc.com/wealth-management-services/mutual-fund-services/omni-serv).

- » **Transmission/portal.** Fund companies and intermediaries may use transmission services or an intermediary's proprietary file layouts to share information. While information is exchanged using this method, physical trading may still occur through AIP or Fund/SERV.
- » **Check and application.** Investors receive account activity reporting through mailed statements or other retail-oriented online account management tools provided by the fund company. Since these accounts are held directly with the transfer agent, the fund company has good transparency into sales data and the attributes of the account base. Advisers often leverage online portals offered by third parties that provide consolidated, cross-fund-family views into accounts for their customers held directly with the fund's transfer agent.

## Summary and Considerations

Although interval funds have experienced remarkable growth in assets and popularity among investors and their financial advisers in the recent past, the operational challenges identified in this paper are creating significant headwinds to maintaining this momentum. Common operational solutions for supporting interval funds should improve industry efficiencies, reduce operating costs, and improve the investor experience. To this end, the Interval Funds Task Force has identified four areas of focus to pursue.

### *Work toward an appropriate infrastructure to support efficient interval fund shareholder account setup and maintenance as well as trading, clearance, and settlement—and promote development and adoption*

In the current operating environment, many participants use two platforms—AIP or Fund/SERV—to facilitate efficient, cost-effective account setup as well as trading, clearance, and settlement of interval fund trades. However, neither platform completely supports the trading requirements of interval funds. Fund/SERV and AIP are not currently cross-compatible, which means that an operational decision by a fund company or intermediary to adopt one solution over the other may also affect broader distribution of interval funds.

The mutual fund industry can work together to collaboratively determine how to deploy technology to improve operating efficiencies, including recommendations on what may need to be built, maintained, and delivered. Industry considerations should balance current short-term needs with long-term positioning of successful solutions based on current and emerging product characteristics, stakeholder needs, and volume trends. Industry participants are well-versed at prioritizing industry needs and have a long history of collaborating to resolve operational difficulties and improve industry efficiencies and cost-effectiveness.

Further development of existing and emerging tools that support core trading, clearance, and settlement, such as Mutual Fund Profile Service II—Security Issue Database<sup>28</sup> and Mutual Fund Information Xchange,<sup>29</sup> could provide interval funds with similar benefits to those of open-end mutual funds in the areas of rules and event communication and scheduling of fund events. This would deliver improved support capabilities across the industry, benefiting all participants and shareholders.

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<sup>28</sup> Refer to the DTCC website for more information on Mutual Fund Profile Service II—Security Issue Database. *Mutual Fund Profile Service*, DTCC, [www.dtcc.com/wealth-management-services/mutual-fund-services/mutual-fund-profile-service-ii](http://www.dtcc.com/wealth-management-services/mutual-fund-services/mutual-fund-profile-service-ii).

<sup>29</sup> Refer to the DTCC website for more information on Mutual Fund Information Xchange. *MF Info Xchange*, DTCC, [www.dtcc.com/wealth-management-services/mutual-fund-services/mf-info-xchange](http://www.dtcc.com/wealth-management-services/mutual-fund-services/mf-info-xchange).



The ICI Broker/Dealer Advisory Committee is committed to working with DTCC, as operator of both Fund/SERV and AIP, and with other industry stakeholders as appropriate to explore opportunities to improve the operational efficiency and effectiveness of the interval fund trading, clearance, and settlement operating infrastructure.

### ***Explore developing standard recommended practices regarding common interval fund activities***

Fund companies are encouraged to consider where development of common operational practices could provide efficiencies, while not adversely affecting meaningful product differentiation. Examples of areas that could be further explored include considerations about how repurchase dates are selected, the frequency and types of communication schedules and methodologies used for interval funds, understanding trade correction policy considerations, and approaches to processing dividends and share class conversions. Development of trade processing best practices among fund companies would help educate the industry and identify where potential changes may benefit industry operating efficiencies.

### ***Improve investor and adviser education about interval funds***

Improved investor and adviser education from fund companies regarding interval fund characteristics—including the general risks of investing in products that hold more illiquid securities and the complexities when interval fund transactions are being processed—would be well-received by intermediaries and investors alike. Clarifying expectations sets the stage for investors to be more comfortable with the product and anticipate the potential need to hold and access investments differently than open-end mutual funds.

### ***Strive to mitigate current communication pain points***

Intermediaries, fund companies, and service providers should evaluate the communication methods they employ with counterparties, focusing on the key events, data points, and communication requirements to optimally perform the various aspects of interval fund processing and support. For example, all counterparties must be aware when a repurchase event requires proration. Timely calculation and distribution of proration factors to intermediaries that must adjust repurchase orders for proration purposes prior to sending the orders to the fund on repurchase pricing date, when applicable, are essential for accurate processing of shareholder activity. Discussing the operational considerations and documenting potential operational practices to effectively manage these occurrences will create smoother operational outcomes that benefit all counterparties and the investors and advisers who invest in interval funds. ICI, through its Broker/Dealer Advisory Committee, is uniquely positioned to work with funds, intermediaries, and service providers to facilitate these conversations and promote improvement to the benefit of all industry stakeholders.

## Glossary

**Binding orders.** For funds that have a repurchase request deadline prior to the repurchase pricing date, requests submitted during the repurchase period are binding.

**CUSIP.** A nine-character alphanumeric code in the United States that identifies a security for the purposes of facilitating clearing and settlement of trades.

**DTCC.** The Depository Trust & Clearing Corporation is the parent organization of NSCC's Wealth Management Services, operator of various trading, clearance, and settlement solutions supporting interval funds. [www.dtcc.com](http://www.dtcc.com)

**Fund company.** The entity offering the interval fund to the marketplace. The fund company typically represents a group of funds that have the same distributor and often the same investment adviser and transfer agent.

**Net asset value (NAV).** Valuation of the fund's offering price.

**Non-omnibus.** Level 3 or direct accounts are registered one-for-one with the fund company or its transfer agent, each with varying levels of transparency to the underlying investor.

**NSCC.** DTCC's subsidiary, National Securities Clearing Corporation (NSCC), provides clearing, settlement, risk management, central counterparty services, and a guarantee of completion for certain transactions for counterparties. Both Fund/SERV and AIP are part of NSCC.

**Omnibus.** A single, large house account registered to a firm that holds in aggregate the share positions on behalf of the firm's underlying shareholders.

**Position and transaction data.** Balance and activity files exchanged between fund companies and intermediaries to reconcile shareholder activity.

**Prorate/proration.** When a repurchase is oversubscribed (e.g., repurchase requests exceed the number of shares that a fund offers to repurchase during the repurchase period), orders are proportionally reduced until the repurchase is no longer oversubscribed.

**Repurchase.** Interval funds will buy back (repurchase) shares from shareholders on a predetermined schedule, such as quarterly or semiannually. Also known as "redemption" or "tender."

**Repurchase offer.** Interval funds offer 5 to 25 percent of the fund for repurchase on a periodic basis (e.g., monthly, quarterly, semiannually, or annually).

**Repurchase payment deadline.** The date by which an interval fund must pay shareholders for shares repurchased. The date may not be more than 7 days following the repurchase pricing date.

**Repurchase period.** The period from the date the fund will begin accepting repurchase orders to the repurchase request deadline. The fund must send a notice to shareholders no less than 21 and no more than 42 days prior to the repurchase request deadline.

**Repurchase pricing date.** The date when the NAV is determined for the amounts submitted for repurchase as of the repurchase request deadline. The repurchase pricing date generally must occur no later than the 14th day following the repurchase request deadline.

**Repurchase request deadline.** The deadline by which the interval fund must receive all repurchase requests.

**Sales data.** Data transparency from the firm to the fund company to view sales by representative and location.

**Security Issue Number (SIN).** DTCC-issued identifier for products offered via AIP.

**Subscription period.** For interval funds that are not daily subscription, the period by which purchase orders are accepted.

**Trade warehousing.** The “queuing” and holding of orders received during a subscription or repurchase period for future processing on the repurchase pricing date. Trades may be warehoused by an intermediary, the interval fund company or its agent, or a service provider to either entity.



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