

IMPORTANT NOTICE

National Securities Clearing Corporation



A#6620

P&S #6190

DATE: May 20, 2008

TO: ALL PARTICIPANTS

ATTENTION: MANAGING PARTNER/OFFICER,
OPERATIONS PARTNER/OFFICER,
DIRECTOR OF OPERATIONS,
MANAGER CUSTOMER ACCOUNT TRANSFER DEPARTMENT,
MANAGER MUTUAL FUNDS OPERATIONS,
MANAGER MARGIN DEPARTMENT,
DATA PROCESSING MANAGER,

FROM: Louis Lepore, Clearance & Settlement Product Management

SUBJECT: New Service Announcement– ACATS Mutual Fund Transfer Service

Subject to approval from the Securities and Exchange Commission (SEC), the National Securities Clearing Corporation (NSCC) plans to enhance its mutual fund transfer services to support transfers of mutual fund assets between firms and mutual fund companies. This service will leverage NSCC's existing Automated Customer Account Transfer Service (ACATS) and its Transfer of Retirement Assets (ToRA) service (which is a function of the Fund/SERV® System). The service will enable an ACATS member firm (broker dealer and bank) to transfer a mutual fund position directly with the mutual fund company. In this service, the mutual fund company will have two roles: one in its traditional role (processing re-registration instructions) and the other as contra party to the transfer. This new service will facilitate the end goal of adopting a single industry standard transfer system that automates in-kind mutual fund position transfers and simultaneously lowers the cost of processing transfer requests, reduces the risk associated with residual shares and reduces transfer timeframes.

Background

In 2006, the Investment Company Institute (ICI) Broker Dealer Advisory Committee (BDAC) identified transfers as one of the issues to focus on in the upcoming years. In response, the ICI Transfers Working Group was formed to create a standard method for mutual fund transfer processing between firms and mutual fund companies in order to improve efficiency and reduce costs associated with the transfers. In 2007, the ICI Transfers Working Group requested that DTCC develop a NSCC service to provide links between the ACATS, ToRA and Fund/SERV® services to standardize the transfer of positions and the asset liquidation process between firms and mutual fund companies. The ICI Transfers Working Group suggested the implementation of the proposed system changes to occur in multiple phases. The in-kind transfer functionality will be included as part of the phase one release, by year end 2008 and the asset liquidation functionality will be implemented at a later date.

For phase one, the in-kind transfers will be handled using ACATS, ACATS-Fund/SERV and ToRA. NSCC will convert the corresponding transfer records between ACATS and ToRA and between ACATS and ACATS-Fund/SERV. Listed below are some of the key milestones and proposed enhancements for this initiative.

Milestones

- 2006 - ICI Transfers Working Group is formed
- 2007 - ICI Transfers Working Group requests DTCC build a translation service
- 2007 - ICI Transfers Working Group develops the in-kind transfer scenarios
- Q1 2008 – NSCC creates a concept paper. A copy of this paper (which includes all the in-kind scenarios) is available on the ACATS website at acats.nsc.com.
- Q2 2008 - NSCC will issues important notices and updated file format specifications for both firms and mutual fund companies
- Q4 2008 - Participant testing and product implementation

Proposed Enhancements

ACATS

- Add a new value to the Transfer Type Data Field called PTF - Position Transfer Fund
- Add new values to the Original Receiver Customer Account Type Field to be used for the new PTF transfer type only
- Add a new data field on the Asset (AT) record to indicate whether Broker/Dealer of Record will remain the same

Mutual Fund Services

- ACATS Transfer (018) and ToRA record layout changes

Participants are advised that subsequent Important Notice(s) will be issued regarding the file format modifications for using the service.

Additional Information

A copy of this Important Notice can be obtained from NSCC's web site <http://www.nsc.com> in the Important Notice section. For additional questions related to this service regarding ToRA or Fund/SERV®, please contact your Relationship Manager, Randy Solomon at (212) 855-5674 or Rita Gribben at (212) 855-5677. For additional questions related to ACATS, please contact your Relationship Manager, Bill Kapogiannis at (212) 855-5667 or the undersigned at (212) 855-4223.

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