

# IMPORTANT NOTICE

National Securities Clearing Corporation



**A#6643**

**P&S #6213**

**DATE: June 25, 2008**  
**TO: ALL PARTICIPANTS**

**ATTENTION: MANAGER MUTUAL FUNDS OPERATIONS,  
MANAGER DATA PROCESSING, MANAGER  
CASHIERS, MANAGER P&S DEPARTMENT**  
**FROM: WEALTH MANAGEMENT SERVICES – MUTUAL  
FUNDS**  
**SUBJECT: PROGRAM AND SYSTEMATIC INDICATOR  
FRAMEWORK: ENHANCEMENTS TO  
FUND/SERV® FOR DTCC (WEBDIRECT AND  
MAINFRAME)**

**Effective October 18th, 2008** National Securities Clearing Corporation (NSCC) will be implementing enhancements to Fund/SERV®.

Fund/SERV will be modified to create a generalized framework to help properly identify transactions from asset allocation rebalance programs (buy, sell, exchange) that is rationally aligned with the existing indicators for recurring/periodic purchases (SIP/PAC/PIP) and systematic withdrawals (SWP). In addition, Fund/SERV will be modified to support Target Date Fund processing.

These indicators would allow funds to exempt applicable transactions from the standard business rules for fund minimums requirements, minimum contribution/withdrawal thresholds and frequent trading penalties including purchase blocks.

In addition, the SWP (Systematic Withdrawal Plan) Frequency Indicator will be changed from Optional to Conditionally Required, allowing funds to calculate and track Contingent Deferred Sales Charge (CDSC) waivers. Today, without clear disclosure about the underlying investment, these transactions may be rejected or erroneously categorized. The indicators are pass-through values that should be used in downstream rules-based applications. The objective is to ultimately minimize manual exception processing and errors.

**It must be emphasized that the change to the Liquidation Indicator field will impact all users. The failure to code for new the frequency requirement for SWPs will lead to rejected transactions (i.e., when Liquidation Indicator value = 8, frequency is now required).**

## 1) Summary

### Framework for Program Transactions and Systematic Transactions

The changes will create a framework to properly identify “Program Transactions,” Systematic Contributions, Systematic Withdrawals and Target Date Funds. The following is an inventory of the changes:

#### New Indicators

- A. New Optional Fund/SERV Indicator: **Program Transaction**
- B. New Optional Indicator (on registration record only): **Target Date Fund Indicator**

#### Changes in Existing Fields

- C. SWP Frequency Indicator changed to generic “Periodic Frequency Indicator” (Modified name, values and conditions) – **Please note, optional field is becoming optional/conditional**
- D. Liquidation Indicator Comment: Values will reference “CDSC Waiver” comment (documentation only)
- E. Redemption Fee Waiver Indicator will be changed to “Short Term Redemption Fee Waiver Indicator” (Modified field name only)
- F. On registration record, “PAC” reference will be changed to “Systematic Contribution (SIP/PAC/PIP)” (Modified field name only)

## 2) Changes and Descriptions

### New Indicators

#### **A. New Optional Fund/SERV Indicator: Program Transaction**

This indicator will be used to flag two types of broker-originated trading instructions: capital changes instructions (contributions or withdrawals), and rebalance instructions arising from asset allocation investment decisions.

The following clarifies Program Transaction terminology and values:

- Capital Changes: arising from money flows
  - 1. Systematic Withdrawal (SWP)
  - 2. Target Date Fund Liquidation
  - 3. Systematic Contribution (SIP/PAC/PIP)
- Rebalance Instructions: arising from asset allocation investment decisions
  - 4. Purchase (Systematic)
  - 5. Redemption (Systematic)

<b>Program Transaction Indicator</b> (Includes Capital Changes and Rebalance Transactions)	TBD	TBD	1	A/N	Default = Blank <b>1 = Systematic Withdrawal Plan (SWP)*</b> <b>2 = Target Date Fund Liquidation</b> <b>3 = Systematic Contribution (SIP/PAC/PIP)</b> <b>4 = Rebalance Purchase (Systematic)</b> <b>5 = Rebalance Redemption (Systematic)</b>  * Conditional rule = If 1, then the Periodic Frequency Indicator <b><u>is Required</u></b>	O
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Location of changes: Please refer to the Summary of Affected Record Layouts table

**B. New Optional Indicator (on registration record only): Target Date Fund Indicator**

A new “Target Date Fund Indicator” will be created on the full registration. The indicator will be used by brokers on the Fund/SERV 401 record to indicate that the fund has responsibilities to originate activity for Target Date Funds.

Functionally, the Target Date Fund Indicator is similar to the existing optional SWP indicator in the 401 record. The following is a sketch of the record layout:

<b>Target Date Fund Indicator</b>	<b>TBD</b>	<b>TBD</b>	<b>1</b>	<b>A/N</b>	<b>Y/N</b>	<b>O</b>
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From a business perspective, it is important to comprehend whether it is firm or fund responsibility to originate the trading instructions. As an example:

- ❖ If the fund is responsible to redeem shares, they would capture the Target Date Fund Liquidation (“Y”) value on the Full Registration record (401). The firm will NOT populate the Program Indicator on the Order record.
- ❖ If the firm is responsible to redeem shares, on a specific order, they would mark the Program Transaction indicator with the Target Date Fund Liquidation (“2”) on the Order record (001). Please note: the Full Registration record would **have a null value** on the ““Target Date Fund Indicator” field on the Full Registration record (401) since the fund does not have transactional responsibilities.

**Changes in Existing Fields**

**C. SWP Frequency Indicator changed to generic “Periodic Frequency Indicator” (Modified Name, Values and Conditions impacted)**

The existing SWP indicator will be modified to make the field more generic to any periodic transactions. This requirement will impact of the field is changing from optional to optional/conditional. The following is illustrates the change before and after in the order record.

**Example: Existing Field in Order (001)**

Field Name	Start	End	Len	Type	Description	Opt/Req	Reject Code
<b>SWP (Systematic Withdrawal Plan) Frequency Indicator</b>	<b>73</b>	<b>73</b>	<b>1</b>	<b>A/N</b>	<b>To be used with Liquidation indicator = 8 Not allowed for other Liquidation Indicators. 0 = Weekly 1 = Monthly 2 = Bi-Monthly 3 = Quarterly 4 = Semi-Annually 5= Annually 6 = Other</b>	<b>O</b>	<b>083</b>

**Example: New Values in Order (001)**

Field Name	Start	End	Len	Type	Description	Opt/Req	Reject Code
<b>Periodic Frequency Indicator</b>	<b>73</b>	<b>73</b>	<b>1</b>	<b>A/N</b>	<b>Required if: Liquidation Indicator = 8 or Program Transaction = 1  0 = Weekly 1 = Monthly 2 = Bi-Monthly 3 = Quarterly 4 = Semi-Annually 5= Annually 6 = Non-Periodic [meaning Ad Hoc]</b>	<b>OC</b>	<b>083</b>

Location of changes: Please refer to the Summary of Affected Record Layouts table

**D. Liquidation Indicator Comment: Values will reference “CDSC Waiver” comment (Comment and Conditional Logic impacted)**

Several changes will occur to this record layout. First, a comment is added to clarify that the business use is for CDSC liquidations. In addition, this requirement will impact all participants because the field is changing from optional to optional/conditional. When the Systematic Withdrawal value(8) is chosen, **a frequency indicator will now be required.** Currently, the field is optional. See the following to illustrate the change:

Field Name	Start	End	Len	Type	Description	Opt/Req	Reject Code
Liquidation Indicator	77	77	1	A/N	Required If Trans Type = 5 1. Gross 2. Net 4. CDSC Waiver due to correction* 5. Death* 6. Disability* 7. Mandatory distribution* 8. Systematic Withdrawal* 9. Defined Contribution (Plan as originator)* A. Hardship* B. No Commission Paid* * Values 4 through B should apply only to transactions with CDSC Waivers	OC	046

Location of changes: Please refer to the Summary of Affected Record Layouts table

**E. Redemption Fee Waiver Indicator changed to “Short Term Redemption Fee Waiver Indicator” (Modified Field Name only)**

This change only affected a field name:

Previous fieldname: Redemption Fee Waiver Indicator

New field name: Short Term Redemption Fee Waiver Indicator

Location of changes: Please refer the Summary of Affected Record Layouts table

**F. On full registration record (401), “PAC” reference changed to Systematic Contribution (SIP/PAC/PIP) (Modified Field Name only)**

This change only affected a field name:

Previous fieldname: Redemption Fee Waiver Indicator

New field name: Short Term Red

Location: 401 Record only

**Please Note: Modification for Records Related to Exchanges**

Exchange records have common fields with Fund/SERV order records, however they also have unique attributes. In Exchange records, the all Program Transaction Values will be deleted and replaced with a single value unique to transactions related to exchanges called “Systematic Exchange.”

<b>Program Transaction Indicator</b>	<b>TBD</b>	<b>TBD</b>	<b>1</b>	<b>A/N</b>	<b>Default = Blank 1 = Systematic Exchange</b>	<b>0</b>
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Since Exchanges records do not have a Frequency Field, there cannot be a conditional link to frequency for the Program Transactions. In addition, in exchange records, no Liquidation Indicator exists so they logically cannot be modified. However, since Exchanges contains the Redemption Fee Waiver field, the field name will be modified to the new name.

**3) Summary of Affected Record Layouts**

For an understanding of affected layouts, please consult the following table:

<b>Records</b>	<b>New Indicator: Program Transaction Indicator</b>	<b>Changed Values: Liquidation Indicator values reference "CDSC Waiver"</b>	<b>Changed Existing Fieldname: Redemption Fee Waiver</b>	<b>Multiple Changes on Existing Field: Re-named Field Changed Values and Conditions: Frequency Indicator</b>	<b>New Indicator: "Program Setup Indicator"</b>	<b>Changed Existing Fieldname: Systematic Contribution (Slr, PAC, PIP)</b>	<b>Notes</b>
Fund/SERV Order Records (001)	x	x	x	x			
Fund/SERV Correction (003)	x	x	x	x			
Fund/SERV As Of Order (004)	x	x	x	x			
Fund/SERV Confirmation (005)	x	x	x	x			
Fund/SERV Reconfirmation (006)	x	x	x	x			
Fund/SERV Originated Order (007)	x	x	x	x			
Fund/SERV Originated As Order (009)	x	x	x	x			
Fund/SERV Correction Confirmation (025)	x	x	x	x			
Fund/SERV Post Settlement Correction by Fund (026)	x	x	x	x			
FundSERV/Post Settlement Cancellation by Fund (140)	x	x	x	x			
Fund/SERV Exchange Order (015)	x		x				Special Logic Due to Absence of Periodic Indicator
Fund/SERV Exchange Confirmation (016)	x		x				Special Logic Due to Absence of Periodic Indicator
Fund/SERV Exchange Reconfirmation (017)	x		x				Special Logic Due to Absence of Periodic Indicator
Fund/SERV Registration (401)					x	x	Change to Support Target Date Funds
<b>Change Summary</b>	<b>New Indicator</b>	Values	Field Name	Field Name Values Logic	<b>New Indicator</b>	Field Name	
<b>Field Type</b>	Optional	Optional-Conditional	Optional	Optional-Conditional	Optional	Optional	
<b>Reject Codes</b>	New reject message	No Change (only name of values changed)	Edit Reject Code Name	Edit Reject Code Name	New reject message	Edit Name	

#### 4) **DTCC WebDirect**

DTCC WebDirect will be modified to add the new indicators as well as conforming to the field name modifications.

#### 5) **New Reject Codes**

An updated list of Reject Codes can be found on the Wealth Management Services website shortly (<http://www.dtcc.com/products/wealthmgmt/>).

#### 6) **Testing**

Effective **Wednesday, October 1, 2008** testing of the new record layouts and web screen functionality will be accommodated in the Participant Services Environment (PSE) region.

**All participants are strongly advised to test.** Participants wishing to test must contact the Enterprise Service Center (ESC) by calling the NSCC Production Support Hotline at 212-855-1144, option 5, option 2. To ensure proper set up for the PSE region, it is requested that at least three days prior notice be provided to ESC.

#### 7) **Documentation**

The Fund/SERV and WebDirect User Guides, Technical Manuals, Record Layouts and Best Practice Guides will be updated and made available to participants within the next several weeks on the WMS website (<http://www.dtcc.com/products/wealthmgmt/>).

Any questions or concerns regarding this Important Notice can be directed to Mutual Fund Marketing at 212-855-8877, your WMS Relationship Manager, or the undersigned.

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## **Appendix One: Naming Conventions, Definitions and Comments**

The following section defines many of the terms used in this proposal:

**Program Transaction:** A Program Transaction is a generic flag on broker-originated transaction instructions that is used to identify a transaction with a specific business purpose. The key requirement is that funds need to uniquely identify them for downstream processing in rules-based applications.

**Target Date Fund Indicator:** A new value on the Program Transaction and a new indicator on a full registration. The indicators will allow firms and funds to properly assign responsibility to handle liquidations that are related to Target Date Funds. This special liquidation type may occur in conjunction with a SWP.

**Systematic Contribution** generically refers to the following: Systematic Investment Plan (SIP), Pre-Authorized Checks (PAC) and Periodic Investment Plan (PIP).

**Systematic Withdrawals (SWPs):** SWPs have two references in the enhancement. One set of SWPs has CDSCs and is identified using the Liquidation Indicator. All other SWPs may be identified using the Program Transaction indicator.

**Rebalance Transactions:** Refers to purchases or redemptions that arise from asset allocation changes. These transactions can be automated (e.g., rebalancing to a strategic target allocation) or at the discretion the party responsible for the client account such as an overlay manager.

**Non-Periodic:** Non-Periodic means an Ad Hoc transaction; this replaces the frequency value of “Other.”