

IMPORTANT NOTICE

National Securities Clearing Corporation



A#6653

P&S #6223

DATE: July 7, 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: ACATS Mutual Fund Transfer Service

I. Introduction

In Important Notice A#6620, P&S#6190 dated May 20, 2008, the National Securities Clearing Corporation (NSCC) announced enhancements to the Automated Customer Account Transfer Service (ACATS) and Mutual Fund Services to support transfers of mutual fund assets between firms and mutual fund companies. These enhancements will enable an ACATS member firm (broker dealer and bank) to transfer a mutual fund position directly with the mutual fund company. Subject to approval from the Securities and Exchange Commission (SEC), NSCC plans to implement these **voluntary** enhancements in production on December 1, 2008. Although the concept paper discusses three in-kind transfer scenarios, only the firm initiated transfer scenarios (Scenario #1 and Scenario #3) will be implemented in December. The fund initiated transfer scenario (Scenario # 2) will be implemented next year. To learn more about these enhancements, a copy of this concept paper can be accessed directly on the ACATS page of DTCC's website by clicking on the following URL address: http://www.dtcc.com/products/cs/equities_clearance/acats.php

II. New Proposed Modifications

Outlined below are the proposed modifications required by ACATS member firms in order to use this **voluntary** functionality. These modifications are as follows:

1) Add a new value to the Transfer Type data field called PTF – **Position Transfer Fund**. This new PTF transfer type will work similar to the partial transfer features in ACATS today. The PTF transfer type will include the **Gift/Donation Indicator field** on the transfer input (TI) record. This field will

remain optional. A summary of how the PTF transfer type will be used by a firm acting as receiver or deliverer in the transfer (for both firm initiated in-kind transfers) is described in **Section IV** of this important notice. The PTF transfer type will be added to the following file formats:

Input

- ACATS Transfer Input (TI), Asset Input (AT) and Fund Registration (FR) Input – Variable Record Length, Datatrak #36667
- ACATS Transfer Input (TI), Asset Input (AT) and Fund Registration Input (FR) – Fixed Record Length, Datatrak #32667

Output

- Multi-Cycle Transaction MRO, AutoRoute 02090716 & End-of-Day Transaction MRO, AutoRoute 02090717 (Variable Record Length)
- Multi-Cycle Transaction MRO, AutoRoute 02090722 & End-of-Day Transaction MRO, AutoRoute 02090723 (Fixed Record Length)
- ACATS Position MRO, AutoRoute 02090718 (Variable Record Length)
- ACATS Position MRO, AutoRoute 02090724 (Fixed Record Length)
- ACATS Settlement MRO, AutoRoute 02090719 (Variable Length)
- ACATS Settlement MRO, AutoRoute 02090725 (Fixed Record Length)

Please note: NSCC will add a new data input screen for transfer type PTF on DTCC Web Direct

2) Add the following new account type value to the Original Receiver Customer Account Type data field on the input and output file formats listed below. This new account type will only be valid for the new PTF transfer type. ACATS will have edits in place to reject any other transfer type using this account type value. The value is as follows:

SS = SARSEP

Input

- ACATS Transfer Input (TI) – Variable Record Length, Datatrak #36667
- ACATS Transfer Input (TI) – Fixed Record Length, Datatrak #32667

Output

- Multi-Cycle Transaction MRO, AutoRoute 02090716 & End-of-Day Transaction MRO, AutoRoute 02090717 (Variable Record Length)
- Multi-Cycle Transaction MRO, AutoRoute 02090722 & End-of-Day Transaction MRO, AutoRoute 02090723 (Fixed Record Length)
- ACATS Position MRO, AutoRoute 02090718 (Variable Record Length)
- ACATS Position MRO, AutoRoute 02090724 (Fixed Record Length)
- ACATS Settlement MRO, AutoRoute 02090719 (Variable Length)
- ACATS Settlement MRO, AutoRoute 02090725 (Fixed Record Length)
- ACATS Fund/SERV Statistics, AutoRoute 02090720 (Variable Record Length)
- ACATS Fund/SERV Statistics, AutoRoute 02090726 (Fixed Record Length)

Please note: NSCC will add this new account type value to the new PTF Transfer Input (TI) screen on DTCC Web Direct

III. Additional Rules

With this enhanced functionality, firms are advised of the following rules which will be applicable to all scenario types. They are as follows:

- There can be only one mutual fund asset included in each PTF transfer request or the transfer will be rejected
- The contra-party to the transfer must be a mutual fund company or the transfer will be rejected
- Your firm must be set-up on the ACATS master file as Fund/SERV eligible (Settlement Location 10) or the transfer will be rejected
- The mutual fund company must be set-up on the ACATS master file as ACATS-Fund/SERV eligible (Settlement Location 10) or the transfer will be rejected
- The mutual fund asset must be ACATS-Fund/SERV eligible or the transfer will be rejected
- The mutual fund asset must belong to the mutual fund company involved in the transfer or the transfer will be rejected
- Any transfer using the new account type value (**SS=SARSEP**) for a transfer type other than a PTF will be rejected

IV. Position Transfer Fund (PTF)

Listed below is how the new PTF transfer type will be used by a firm acting as a receiver or deliverer for firm initiated in-kind transfers. These scenarios are taken from the concept paper located on the ACATS page of DTCC's website at http://www.dtcc.com/products/cs/equities_clearance/acats.php

They are:

Scenario# 1 - Fund Transfers Mutual Fund Asset to Firm (Firm Initiated)

- The firm, as receiver, submits a PTF transfer type in ACATS by 12:00 p.m. eastern time
- The asset (AT) portion of the record will be 431 bytes long like a Partial Transfer Receiver (PTR) today, however, the transfer will begin in **Status = (200) Review**
- The firm submits a Fund Registration (FR) by 4:00 p.m. eastern time on the same day the PTF transfer was submitted. However, the FR cannot be submitted until an ACATS control number is produced (which is after PTF submission). If no FR is received, ACATS will generate a default registration instruction on behalf of the firm
- If the registration instructions are acknowledged by the Fund Company, the transfer will move to **Status = (310) Settle Close**
- If the registration instructions are rejected or not responded to by the fund company within the allotted time, the transfer will move to **Status = (600) Reject**

Scenario# 3 - Firm Transfers Mutual Fund Asset to Fund (Firm Initiated)

- The firm as deliverer, submits a PTF in ACATS by 12:00 p.m. eastern time which places the transfer in **Status = (200) Review**
- The AT portion of the record will be 550 bytes long like a Partial Transfer Deliverer (PTD)

- ACATS will generate registration instructions on behalf of the Fund
- If the registration instructions are acknowledged by the Fund Company, the transfer will move to **Status = (310) Settle Close**
- If the registration instructions are rejected or not responded to by the Fund Company within the allotted time, the transfer will move to **Status = (600) Reject**

V. ACATS Fund/SERV 018 Record

As with the current ACATS process, if a firm acting as receiver, does not submit a Fund Registration (FR) instruction record for a mutual fund asset (Settlement Location 10) during the review period (for the new PTF transfer type), ACATS will generate a default registration instruction on behalf of the firm. ACATS will apply the same default value processing as it does today with the following exceptions:

- 1) Book/Physical Share Indicator – ACATS will automatically default the value to “**1**” – **Transfer in & out: book shares**. This is a change to what is done today for the other ACATS transfer types where the default value is based upon the deliverer’s asset input (AT) record. However, since a fund company is the deliverer, there will be no deliverer asset input (AT) record received by ACATS
- 2) Dividend Code – ACATS will use the receiving participant’s default value if they have it populated on the ACATS Participant Instruction Database. However, if no standing instructions are available, ACATS will automatically use the default value of “**1**” – **Reinvest, Reinvest, Reinvest**. Again, this is because there will be no deliverer asset input (AT) record received by ACATS

Please Note: Participants are not required to make any system program modifications to the above referenced default value changes

Additionally, ACATS will be adding the following new fields to the 018 record (registration instruction) to assist a Fund Company in reregistering a mutual fund asset. The value in these fields will be passed on each 018 record when the firm or fund is acting as receiver. They are:

- Social Security/Tax Identification Number of Customer
- ACATS Account Type
- Gift/Donation Indicator

Each of these fields will be populated from information on the ACATS transfer input (TI) record.

Please Note: ACAT member firms (broker dealers and banks) are not required to make any system program modifications for these additional data fields. However, mutual fund companies who are participating in this service must be prepared to except these new data fields on the 018 record sent from ACATS Fund/SERV

VI. Testing

NSCC will make available its Participant Services Environment (PSE) for testing the modifications for this enhanced functionality by November 27, 2008. Testing of these enhancements will continue to be available in NSCC's participant test region after production implementation.

VII. 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 or in the ACATS section of DTCC's website at the following URL address: http://www.dtcc.com/products/cs/equities_clearance/acats.php. 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.

Louis J. Lepore
Manager
Product Marketing and Development