

Bank ACATS Best Practices

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Submitted by

Bank Transfer Process Committee

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Introduction

Welcome to the world of Banks and ACATS. As a brief history, DTCC initiated a pilot program for Banks back in February of 1999 in conjunction with the completion of the ACAT rewrite. In June of 1999 the program was opened to all Banks. The Customer Account Transfer Division has been working closely with the both the Banking and Broker/Dealer communities since the inception of the program to increase participation.

The Bank Transfer Process Committee has authored this document (originally authored in February 2004 by The Banks subcommittee of the Customer Account Transfer Division). The purpose of this document is to provide useful information to any financial institution participating in ACATS with Banks. This document is also intended to assist any new Bank participants in their efforts to get started in ACATS. This document is not intended as a procedure manual since DTCC has a comprehensive manual in place. The document details organizational and processing Best Practices with an emphasis on mutual fund processing.

If you have any suggestions for information you would like to see added to this document, please contact any member of the Banks subcommittee.

What is ACATS?

The 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 and/or bank to another.

ACATS can expedite account transfers by permitting transfers to be accomplished in an automated environment. NSCC developed ACATS in conjunction with the NYSE, its Rule 412 Task Force Committee and the NASD to address the industry's need to reduce delays and inconsistencies associated with manual processing.

Instruments handled by the system include equities, corporate and municipal bonds, unit investment trusts, mutual funds, options, cash and other investment products.

Who can use the service?

All eligible and qualified NSCC settling members and DTC member banks are eligible for this service.

Benefits

- ACATS facilitates accurate and timely transfer of a customer's account, with the following operational advantages to users:
- Uniform time frames, standardized reporting and automated control functions
- The service debits delivering brokers the full market value of customers' securities, promoting the timely transfer of assets. For account transfers where a bank is the contra side, the assets are delivered free
- ACATS requires the customer's Social Security/Tax Identification Numbers to enhance the ability of firms to identify individual accounts
- ACATS provides an automated transfer initiation procedure that incorporates the industry's effort to immobilize paper documents such as Transfer Initiation Forms (TIFs)
- Automated residual credit processing allows credits that accumulate after a transfer is completed, such as stock or cash dividends, to be transferred electronically from the delivering firm to the receiving firm through ACATS
- Through the ACATS-Fund/SERV link, users can easily re-register customers' mutual fund assets
- Automated reclaims, partial transfers and fail reversals are available on a next-day settlement basis

Customers initiate account transfers by submitting completed TIFs to their new broker or bank (in the case of residual credits and other non-standard transfers, the delivering firm initiates the transfer). The TIF data is forwarded to NSCC by the receiving firm. The NSCC assigns control numbers and sends control reports to both delivering and receiving brokers/banks.

Delivering brokers/banks must submit asset details or reject the transfer. Assets that are submitted are reported to the delivering and receiving firms. Receiving firms have one business day to reject the account, or request that the delivering firm make adjustments. During this one-

day period, the delivering firm can add, delete or change an item. Receivers can also delete mutual funds where they don't have a selling agreement with the fund.

Through the use of ACATS more than 17,000 accounts are transferred daily which translates to more than 100,000 assets worth more than \$2 billion. This has resulted in the movement of more than \$1 trillion dollars worth of assets being transferred over the life of the ACAT service.

Organizational Best Practices for Banks

One of the primary differences between Broker/Dealers and Banks is that the account process is not always centralized within the Operations at a Bank. Since the new account process is typically fragmented within a Bank, it can be extremely difficult for any one individual to recognize the full benefit to the organization of participation in ACATS. Banks that have been successful in the program typically have taken the following three steps:

- Centralized the new account process within Operations
- Centralized the closing account process within Operations
- Designate an Operation leaser to implement the program and educate the front office on the process

Once a decision is made to participate in ACATS, it is critical that the front office and sales force be educated on the benefits of participation as well as any changes to the new account process that might impact them. Benefits of participation in ACATS that should be highlighted are:

- Customer Satisfaction
 - Reduced timeframe (six to seven days) to transfer an account¹
 - The client's initial experience with the firm is a positive one
- Cost Reduction
 - Follow up efforts eliminated since you receive a current snapshot of the account holdings
 - Not working with outdated statements
 - Not chasing assets that have been sold
 - Significantly reduces re-work, phone calls, e-mails, and faxes to other institutions designed to get assets transferred.
- Uniform time frames, standardized reporting and automated control functions
- Through the ACATS-Fund/SERV link, users can easily re-register customers' mutual fund assets
- Easy access via NSCC's Internet PCWeb Direct interface; no system programming required. With system programming, direct CPU-to-CPU transfers can occur
- Functionality includes the ability to process partial account transfers
- Facilitates mutual fund re-registrations with an automated tracking system
 - Through the FUND/SERV link established links with more than 215 mutual fund families encompassing over 15,000 CUSIPs

¹ Please note that the ACAT cycle will decrease to 4 days in 3rd quarter 2007

- Ability to trade and collect fees sooner
- Residual balances processing – trailing assets, income and cash are swept to the receiving institution automatically
- Competitive advantage – many Banks utilize their participation as an advantage when soliciting new clients
- Cost Basis (CBRS)
 - CBRS is an automated system that provides brokerage firms, banks and other financial organizations the ability to transfer customer cost basis information from one firm to another on any asset transferred through ACATS
 - Permits the automated transfer of cost basis information, making it quick, easy and inexpensive to obtain or provide such information
 - Eliminates the need for a broker or bank, or an individual investor, to research and obtain such information independently
 - Provides an important level of customer service that can be a key advantage in customer selection of a brokerage firm or bank
- It is important that the organization understands that participation in the program means participating on both sides, incoming accounts and outgoing accounts

Incoming Accounts

- Transfers will settle in 6-7 business days from the date of request.²
- If the transfer is rejected, a valid reject code will be provided
- If the transfer is validated (accepted), you will have 24 hours to review the assets in the account to ensure you still want the account
- The potential exists for a debit cash balance to be transferred
 - By allowing the receiving firm pay debits the receiving firm can pay fees, loans (including collateralized loans) and margins on behalf of the client allowing the quicker transfer of accounts
- Non-depository eligible assets will settle outside of the system
 - These assets are identified in the “Full Review” allowing the receiving firm to understand possible delays in transferring particular assets

Outgoing Transfers

- If an outgoing account is requested, you have three business days from the date of the request to either reject or validate the transfer.
 - Best practice is to allow the Operations area to either validate or reject transfer
 - Successful banks have consolidated the closing process and do not seek approval for outgoing ACATS from the front office
- If the request is rejected, you must provide a valid reject code.
- If the request is validated (accepted), you must load the current assets and cash in the account to ACATS as part of the validation process.
- If there is any cash requirement to be held back for taxes or fees
 - Best practice is to allow the Operations area to determine and calculate the dollar amount to be held back.
 - Successful banks have consolidated the fee calculations and do not seek calculation of fees and taxes for outgoing ACATS from the front office
- Sweep (cash management) in the account needs to be liquidated so the cash can move on settlement date.
- Non-depository eligible assets will settle outside of the system

² Again, please note that the ACAT cycle will decrease to 4 days in 3rd quarter 2007

- Residual balances of cash and positions will need to be monitored and delivered to the receiving party
 - Best practice is to sweep residual balances to the receiving firm once a month for six months

Experience has shown us that the Best Practice for educating the front office is to draw up bullet point procedures for both the incoming and outgoing process and to highlight the changes. These procedures and changes to the process should be reviewed with the front office via a series of conference calls or in person meetings within a couple of weeks of implementation. If the front office raises concerns over the outgoing process, remind them that participation in the program is a good faith effort between the Banking and Broker/Dealer communities therefore participation on both sides (incoming & outgoing) is required.

It is very important to continue to illustrate the large number of benefits that come with the incoming ACATS and fully explain how these benefits far outweigh any perceived downside on the outgoing side.

Participation in ACATS will also require coordination between the Mutual Funds and Receive & Deliver units within a typical operation. Most account transfers consist of both depository eligible assets and mutual funds. It is imperative that both units are fully trained on ACATS and have the capability to submit and view ACATS information. This will enable each unit to work the assets they are responsible for. Email communication between the two units can also be extremely helpful. Typically the R&D unit has overall ACATS responsibility while the Mutual Funds unit works specifically on the re-registration of the Mutual Fund Assets.

The creation of a Account Transfer Operations Group that allows smooth workflow from the R&D unit and the mutual fund unit. These two teams will have to be able to have work flow smoothly between them to allow the mutual fund team to register mutual funds (due by 4pm day after the Full Review) and the creation of the taxlots onto the trust accounting system.

Brokers Vs Banks

The following are the primary differences between the Bank and Broker/Dealer programs that you should keep in mind as you implement ACATS within your organization:

- Participation with and by Banks is a good faith effort. Participation for Banks is not currently mandated. Broker dealers are also not mandated to participate with Banks.
- The new account process is not always centralized within a Bank.
- Most Banks will require that paperwork be submitted for all transfers.
- On settlement date, assets will move free of payment. There are no valued fails on transfers with Banks. Banks are not required to participate in the CNS (Continuous Net Settlement).
- Banks are not governed by the NYSE, NASD and Rule 412 “Customer Account Transfer Contracts”
 - Rule 412
 - The NYSE Rule 412 was written to ensure the adherence of very strict and stringent processing guidelines for brokers. Brokers are regulated by the NYSE and are required to follow the stringent guidelines. The ACAT service was designed to allow brokers to be able to adhere to this rule.
 - This excerpt below describes how brokers are required by NYSE Rules and Regulations to use the ACAT service.

“When both the carrying organization and the receiving organization are participants in a registered clearing agency having automated customer securities account asset transfer capabilities, the securities account asset transfer procedure, including the establishing and closing out of fail contracts, must be accomplished in accordance with the provisions of this rule and pursuant to the rules of and through such registered clearing agency with the exception of specifically designated assets transferred pursuant to the submittal of a customer’s authorized alternate instructions to the carrying organization..”
- Both Banks and Brokers are ruled by Rule 50 with ACATS. It is important to have fully read, understood and be ready to fully adhere to the rules. All participants who participate in the ACAT Service must agree to follow rule 50. (See last page for link).

Mutual Funds

Once a decision has been made to transfer a mutual fund through ACATS, there are very few processing differences between banks and brokers. The receiving and delivering firms must have Fund/SERV agreements in place with each mutual fund company to have ACATS Fund/SERV Automatically transfer shares. The mutual fund companies use these agreements to establish the individual bank's dealer file and the bank's NSCC clearing code of the mutual fund system.

ACATS provides the receiving banks with a vehicle to accommodate effectively the re-registration of the transferring account with mutual funds via the clearing corporation's ACATS Fund/SERV Link. The clearing corporation has established links with more than 225 mutual fund families, encompassing more than 15,000 CUSIPs, and that number is growing daily. Additionally, the system accommodates standing default registration instructions to provide the ability for an automated tracking monitor of re-registrations. This eliminates much of the manual, paper-intensive processing that occurs today, including the need to write letters to the individual funds and the mandatory follow-up and cross checking that generally follows.

NSCC Complementary Functions

Fund/SERV is a trading platform. Having a Fund/SERV selling agreement in place with a mutual fund company standardizes the processing of mutual fund purchases, redemptions order, settlement, and account registrations.

Networking is a complementary system that allows for the continuous exchange of account related information between firms and fund companies; there is also an agreement to be signed for Networking.

Being familiar and utilizing these to systems will directly contribute to your banks success with ACATS.

Step by Step ACAT

Step	Taken By	Action	Result
1	Firm expecting to receive a customer's account	Submits Transfer Initiation Form data	Begins transfer process.
2	NSCC	Generates ACATS Transfer Transaction	Confirms input receipt to receiving firm. System-rejected requests are reported to the receiving firm. Delivering Firm notified of transfer request.
3	Delivering Firm	Submits Asset Input <i>Or</i> Customer Account Transfer Reject NOTE: Responses should be submitted within three business days to prevent account from entering a Request-Past status	NSCC generates Asset Transaction Report listing assets. Deliverer reviews for accuracy. NSCC generates Transfer Transaction Report with rejects
4	Receiving Firm	If the account was rejected with a 24-hour Reject Code, the receiver should correct by submitting an adjusted TIF. NOTE: TIFs not corrected within the 24- hour period will cause the account to reject.	NSCC generates Transfer Transaction Report with TIF adjustments.
5	Receiving Firm	Reviews Asset Transaction Report Within one business day <i>Either</i> Accepts the account (does nothing) and submits re-registration instructions for ACATS Fund/SERV eligible assets. <i>Or</i> Accepts the account and accelerates settlement <i>Or</i> Requests adjustments	Transfer settles three days later. Transfer settles two days later. Delivering firm submits Asset Input or Adjustment and NSCC indicates pending adjustment on Transfer Transaction Report and generates Asset Transaction Report with

Step	Taken By	Action	Result
		<p><i>Or</i> Submits Asset Delete for mutual fund(s) and accelerates settlement</p> <p><i>Or</i> Rejects account</p>	<p>adjustments highlighted.</p> <p>Transfer settles two days later</p> <p>NSCC generates Transfer Transaction Report with reject.</p>
6	NSCC	<p>Generates Settlement Report and</p> <p>Option Transfer Report</p>	<p>Lists all accounts scheduled to settle on designated settlement date.</p> <p>Lists all option assets scheduled to move through OCC's Option Transfer Service on settlement date.</p>
7	NSCC	<p>Reports assets settling on CNS Projection Report</p> <p>- and / or generates Receive and Deliver Instructions</p> <p>- and / or a Deliver Order file to DTC for Depository- eligible securities</p> <p>- and / or generates a file of Mutual Fund re-registration instructions for eligible Fund/SERV assets and a file to OCC of options that are being transferred.</p>	<p>Book-entry delivery via NSCC's CNS System.</p> <p>Delivery is made outside of CNS.</p> <p>Fund/SERV is sent re-registration instructions and OCC sent options transfer instructions.</p>

Useful Information and Links

Bank Participants in ACATs

http://fundserv.nsc.com/binary/14525ACATS_Bank_Usage_Matrix.pdf

Broker Dealers Participating with Banks

http://fundserv.nsc.com/binary/14491Brokers_in_Bank_ACATS_web.pdf

The Securities Transfer Association

<http://www.stai.org/>

Securities Industry Association Customer Account Transfer Division

<http://www.siacat.com/>

Full List of NSCC & DTCC Participants (Including ACATs)

<http://www.nsc.com/directory/nsc.xls>

NSCC Fund/SERV Website

<http://fundserv.nsc.com>
nsc
manual97

NSCC ACAT Format Website

<http://formats.nsc.com/>
nsc
ticktock

DTCC Website

<http://www.dtcc.com/>

NYSE Rule 412

<http://www.nyse.com/Frameset.html?displayPage=http://rules.nyse.com/NYSE/Help/Map/rules-sys416.html>

NSCC Rule 50

<http://www.nsc.com/legal/nscrules.pdf>
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