

IMPORTANT NOTICE

National Securities Clearing Corporation



A#: 7213 Revised 6-8-11

P&S# 6783

Date: May 19, 2011

To: ALL PARTICIPANTS

Attention: MANAGING PARTNER/OFFICER
OPERATIONS PARTNER/OFFICER
MANAGER P&S DEPARTMENT
MANAGER DATA PROCESSING DEPARTMENT

From: Product Management

Subject: ACATS Modifications regarding Non-CNS ACATS Mutual Fund Transactions
(ACATS Settlement Location 10 – Fund/SERV)

Subject to approval from the U.S. Securities and Exchange Commission (“SEC”), National Securities Clearing Corporation (“NSCC”) will be making modifications to the Automated Customer Account Transfer Service (“ACATS”) system regarding the processing of mutual fund asset transactions that settle through NSCC’s ACATS-Fund/SERV interface to reduce the risk associated with the processing of such transactions. Specifically, the proposed modifications (which are more fully described below) would allow a mutual fund company (“Fund Company”) to respond to a mutual fund re-registration within a timeframe aligned with the ACATS settlement date of the transfer. This modification would reduce the likelihood that a transaction could be responded to by the Fund Company after settlement occurs which might otherwise complicate the reversal of incentive charges in the event of the default of a party to the transaction.

NSCC is currently working with both the Customer Account Transfer Section and Settlement Operations Section of the Securities Industry Financial Markets Association (SIFMA) on potential improvements for the transfer of other Non-CNS ACATS settling asset types.

Primary Modifications

1) NSCC will be including an **ACATS Status 300 = Settle Prep** to any non-standard transfer that contains a mutual fund asset with a Settlement Location 10 – Fund/SERV (i.e., a Fund/SERV eligible Fund asset), thus adding one day on the transfer before it reaches settlement date. Within the current ACATS-Fund SERV process, providing an additional day will ensure that the last day a Mutual Fund Company responds to a mutual fund re-registration is aligned with ACATS settlement date for the transfer. **Both brokers and banks** are impacted by this change as it impacts each of the following non-standard transfer types:

Non-Confidential

DTCC, on behalf of its subsidiaries, is now offering enhanced access to all important notices via a new, Web-based subscription service. The new notification system leverages RSS Newsfeeds, providing significant benefits including real-time updates and customizable delivery. To learn more and to set up your own DTCC RSS alerts, visit http://www.dtcc.com/subscription_form.php.

- Partial Transfer Deliverer (PTD)
- Partial Transfer Receiver (PTR)
- Residual Credit (RCR)

With the exception of the RCR transfer type, this additional day (Settle Prep Status) already occurs today when the non-standard transfer contains an option asset (Settlement Location 35 – OCC).

Note: Although the Position Transfer Fund (PTF) transfer type is used for transferring mutual funds through ACATS-Fund/SERV, this transfer type is not impacted by this modification. Unlike the firm to firm non-standard transfers listed above, a PTF transfer type will only settle (age to Status 310=Settle Close) if the Fund Company acknowledges the fund re-registration.

Members are advised this modification is scheduled to be implemented after the close of business on **Thursday, October 20, 2011. The above-described changes will first be reflected on output distributed after end-of-day processing on Friday October 21, 2011.** Testing will be made available in NSCC’s Participant Services Environment (PSE) sometime in August 2011. A future important notice will be issued with the specific date.

2) On broker to broker transfers, NSCC will be changing the Settlement Category to which original incentive charges are applied for mutual fund assets with a Settlement Location 10 – Fund/SERV. These incentive charges will no longer be applied to Settlement Category Code 006 or 008 on the **NSCC Participant Account Statement** and will be changed to Settlement Category Code 007. This will consolidate all ACATS-Fund/SERV mutual fund transaction activity, both the original incentive charges and the acknowledgement reversal charges, under the same Settlement Category Code. This consolidation will enable NSCC to reverse only the uncompleted mutual fund transactions in a Member default event. Members will see this new modification on their **ACATS Settlement Print Image Report Autoroute #02090712**. There will be a new section at the end of this report that displays **“Totals Not Included in Net Cash 007”** and **“Totals Included in Net Cash 007”** which will now include the Fund/SERV Settlement Location only.

This modification is scheduled to be implemented after the close of business on **Thursday, November 3, 2011**. Members will see these changes displayed on the end of day ACATS Settlement Print Image Report issued **Friday, November 4, 2011 for settlement date Tuesday, November 8, 2011**. The first day Members will see the original incentive money charges for ACATS-Fund/SERV transactions applied to Settlement Category Code 007 of the NSCC Participant Account Statement will be **Tuesday, November 8, 2011**.

Members are required to make any necessary internal enhancements and changes to their settlement balancing routines to support this modification. Since there are no development changes for this modification, no testing will be made available.

Two New Mutual Fund Reversal Files and New Failure to Settle Settlement Category Code

NSCC will make available two new ACATS Reversal Files specifically for mutual fund asset transaction reversals resulting from a Member default event. These new reversal files will be similar to the recently created ACATS reversals files outlined in NSCC Important Notice A# 6976, P&S# 6546 dated April 1, 2010 (ACATS Machine Readable Output -MRO Reversal File Autoroute #02091008)

and NSCC Important Notice A# 7005, P&S# 6576 dated June 10, 2010 (ACATS Reversal Comma Delimited File Autoroute #02091657). Once implemented, mutual fund asset transaction reversals (assets in ACATS Settlement Location 10 – Fund/SERV) will no longer be included on the existing ACATS Reversal Files and only be reported on these two new ACATS mutual fund asset Reversal Files. **Therefore, if a Member does not request to receive either or both of these files, the Member may not know which mutual fund asset position(s) have been reversed in an ACATS transfer that the Member had with the defaulting firm. As a result, Members are strongly advised to accept either one or both of these MRO files in case such an event occurs.**

Additionally, Members are advised there will be a new Settlement Category Code on the NSCC Participant Account Statement that will be used just for mutual fund asset transactions when NSCC processes reversals for uncompleted transactions in a Member default event. The details about this new Settlement Category Code and the new Reversal Files (and their Autoroute #'s) will be distributed in a future important notice.

Additional Information

A copy of this Important Notice can be obtained from the web site of NSCC's parent corporation, The Depository Trust & Clearing Corporation, at <http://www.dtcc.com>. If you have any questions regarding these enhancements, please contact your DTCC Relationship Manager.