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<b>Date:</b>	AUGUST 8, 2022
<b>To:</b>	ALL ACATS AND AIP PARTICIPANTS
<b>From:</b>	ACATS PRODUCT MANAGEMENT, DTCC EQUITIES CLEARING
<b>Attention:</b>	DIRECTOR OF OPERATIONS, ACCOUNT TRANSFERS DEPARTMENT, MUTUAL FUND OPERATIONS, P&S DEPARTMENT, ALTERNATIVE INVESTMENT RELATIONS, ALTERNATIVE INVESTMENT OPERATIONS, ALTERNATIVE INVESTMENT CUSTODY
<b>Subject:</b>	ACATS ALTERNATIVE INVESTMENT RECEIVER DELETE ENHANCEMENT – PSE AND PRODUCTION RELEASE DATES

This notice is a follow-up to Important Notice A9038 (published 8/11/21) that expands the ACATS receiver delete functionality to alternative investment assets. Alternative investments are generally investments that do not fit into one of the conventional asset categories, including hedge funds, fund of funds, private equity, non-traded REITs, and business development companies.

This enhancement, which was approved by the SIFMA Customer Account Transfer (CAT) Forum Leadership Committee and the AIP Roundtable (responsible for driving AIP initiatives), would enable the receiving firm in the account transfer to delete any asset that is identified by the delivering firm as ALT (alternative investment) in the asset category field. Per industry analysis, alternative investments may in some cases be nontransferable assets under applicable Self-Regulatory Organization (SRO) rules<sup>1</sup> and should have the same asset delete capability that currently exists for mutual funds and annuities. Even though the ACATS system will now provide deletion capability for this asset category, it is still the responsibility of the receiving firm not to use this capability except in compliance with the rules of the individual firm’s SRO.

The primary reason for this change is to address the manual process that often follows the inclusion of alternative investments via ACATS that are non-transferable and not eligible for deletion under the current system. As communicated by the industry, alternative investments (ALT) included in an ACATS transfer generate a Receive

1. [FINRA Rule 11870\(c\)\(1\)\(D\)](#):

- (D) For purposes of this Rule, a "nontransferable asset" shall mean an asset that is incapable of being transferred from the carrying member to the receiving member because it is:
  - (i) an asset that is a proprietary product of the carrying member;
  - (ii) an asset that is a product of a third party (e.g., mutual fund/money market fund) with which the receiving member does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer's account;
  - (iii) an asset that may not be received due to regulatory limitations on the scope of the receiving member's business;
  - (iv) an asset that is a bankrupt issue for which the carrying member does not possess (which shall be deemed to include possession at a securities depository for the carrying member's account) the proper denominations or quantity of shares necessary to effect delivery and no transfer agent is available to re-register the shares;
  - (v) an asset that is an issue for which the proper denominations cannot be obtained pursuant to governmental regulation or the issuance terms of the product (e.g., foreign securities, baby bonds, etc.);
  - (vi) limited partnership interests in retail accounts.

[See also FINRA Regulatory Notice 22-19 \(August 2022\) ACATS "Receiver delete" Functionality for Alternative Investments](#)

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and Deliver (R&D) ticket instructing firms to complete the ALT component(s) of the transfer outside of the ACATS process. The next step is generally for the delivering firm to produce physical transfer paperwork and send it to the receiving firm (often via the Envelope Settlement Service) to deliver the asset. Some of these assets end up getting rejected by the receiving firm because there is not an agreement in place with the issuer or because the asset is otherwise ineligible to be held in the receiving account. Depending on firm operational structure, the reject process to return paperwork back to the delivering firm can have multiple touchpoints and paperwork handoffs, resulting in processing delays. In addition to the manual paperwork inefficiencies, ACATS assesses an incentive charge as a result of an R&D ticket that then must be cleaned up post ACATS. The ability to receiver delete these assets in the ACATS system will reduce the cases in which transfer paperwork is produced unnecessarily and enable the account owner a more immediate status of their alternative investment location.

#### Industry Requested Enhancement:

1. Change ACATS edit rule to make existing asset category code ALT valid for receiver asset delete functionality.
  - a. ALT will be an accepted value for an asset delete by receiver on file transmissions.
2. This enhancement will follow the same rules in place for current asset delete categories for mutual funds and annuities (MFNM, MFMM, ANNU).
  - a. Available for transfer types: Full Transfer (FUL), Partial Transfer Receiver (PTR), Partial Transfer Deliverer (PTD) and Residual Credits (RCR).
  - b. When an ALT category asset is deleted, the transfer will progress to 240–Review Adjust Receiver Accelerate status. At the end of the business day, the status changes to the 300–Settle Prep status for full transfers (FUL) or 300–Settle Prep and/or 310–Settle Close for non-standard transfers (PTR,PTD,RCR).
  - c. If the receiver submits an asset delete instruction in the same cycle as a deliverer submitted an asset add or change instruction for a different asset, the transfer will move to 210–Review Adjust Deliverer status to give the receiver time to review the change.
  - d. If the receiver and deliverer submit a change for the same asset in the same cycle, ACATS accepts the receiver’s input and moves the transfer to the 240–Review Adjust Receiver Accelerate status. This rule is in place because it does not matter whether the deliverer adjusts or deletes this asset, the receiver cannot accept it.
  - e. If an asset delete is initiated, the receiver can still delete additional assets up until the final deadline for that day. Example, if a mutual fund is deleted at 10am et and the transfer changes to 240 status, the receiver may still delete an additional asset up until the end of the day.
    - i. Note: If the receiver deletes an asset on review day 1, the transfer will accelerate and review day 2 is eliminated. In this example, the receiver would only have review day 1 to delete an asset.
    - ii. In the case of alternative investments, if the receiver misses the deadline to delete the asset, the alternative asset will follow the same process as today and settle in settling location 50 (Receiver & Deliver ticket).
  - f. The cutoff time for a receiver asset delete is 4:00 P.M. Eastern Time (cycle 11) on either review day 1 or review day 2 (if not accelerated on review day 1).

#### Schedule:

PSE/Test – Friday, September 30, 2022 - The first day in PSE/Test that a receiving firm may receiver delete an asset with an ALT asset category code.

Production – Friday, October 21, 2022 – The first day in production that a receiving firm may receiver delete an asset with an ALT asset category code.

**Documentation:**

All documentation related to ACATS can be found at dtcclearing.com at:

<https://dtcclearing.com/products-and-services/equities-clearing/acats.html>

Website registration is required for access to this documentation.

**Additional Information:**

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

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