

MEMO# 1122

April 20, 1989

MARKETING TO THE BANK TRUST DEPARTMENT MARKETPLACE

April 20, 1989 TO: DIRECT MARKETING COMMITTEE NO. 13-89 RE: Marketing to the Bank Trust Department Marketplace _____

On April 5, 1989, the Institute met with a small group of direct-marketed fund groups who are interested in marketing their funds to bank trust departments. Also attending this meeting were representatives from the National Securities Clearing Corporation (NSCC) and the Depository Trust Company (DTC), as well as several bank trust departments from a task force formed by the Fiduciary and Securities Operations Division of the American Bankers Association (ABA). The purpose of the meeting was to brief them on marketing/operations issues that will significantly affect the ability of direct-marketed fund groups to market their funds to bank trust departments and their clients. This memorandum outlines the basic issues discussed at the meeting. Recently, the ABA formed the above-mentioned task force of their members to look into ways of overcoming ongoing operational difficulties that bank trust departments have been having in the clearance, settlement, and general recordkeeping of mutual fund purchases for their clients. Bank trust departments, which purchase primarily direct-marketed funds for their clients, currently handle their trading and recordkeeping manually. As a way to improve these operations, the ABA task force has been working with NSCC and DTC to develop an electronic system to standardize the settlement and recordkeeping procedures for bank trust departments dealing with direct-marketed mutual funds. The system that is being developed will utilize DTC as a direct link to NSCC's FUNDSERV and Networking systems. FUNDSERV is a centralized order-entry, registration, settlement, and verification system already in use by many sales force-distributed fund groups and their broker-dealers. Networking is the electronic transmission system whereby funds' transfer agent and shareholder records can be passed through NSCC to participants (i.e. banks, broker-dealers, etc.) and allow them to update their books and records in order to give their clients a combined confirmation statement. When the DTC/NSCC link is complete (later this year), it will simplify the bank trust departments' recordkeeping process to such an extent that many will begin to use it and to phase out most of the manual recordkeeping systems currently in use. From a marketing standpoint, this has one very serious implication: when bank trust departments begin to use the new system developed by NSCC and DTC, and phase out their current recordkeeping and settlement functions, they will be able to accommodate purchases of mutual funds that also use the NSCC system. The ultimate result will be that bank trust departments will not handle client purchases of direct-marketed mutual funds unless the fund group is also an NSCC participant. The chairman of the ABA task force, Frank Ware of United Missouri Bank of Kansas City, told those who attended the April 5 meeting that there is tremendous potential for direct-marketed mutual

funds to increase their sales to bank trust department clients. For instance, his bank currently charges their trust department clients a \$100 fee to handle each trade with a direct-marketed mutual fund. He said that the fee is needed to cover the labor-intensive, manual recordkeeping process. Despite the fee, which he feels tends to discourage mutual fund trading, United Missouri Bank of Kansas City handles over 40,000 shareholder accounts (in non-money market funds) with direct-marketed mutual funds. Ware suggested that, if the new automated system makes it easier and less expensive to handle fund recordkeeping, bank trust departments would make more of an effort to promote fund trading, rather than penalizing their clients for owning mutual funds. The Institute's Operations Department and Broker-dealer Advisory Committee worked with NSCC to create the FUNDSERV and Networking systems. In addition, the Institute assisted the ABA in setting up the DTC/NSCC link and in drafting a questionnaire to send to its members. Attached is a copy of the results of that survey. To ensure that the needs of the direct-marketed fund groups are taken into consideration in the development of the DTC/NSCC link with bank trust departments, the Institute is in the process of forming a separate task force comprised of direct-marketed fund group members and bank trust department representatives. If you are interested in working on the task force (participation is limited), you may call me at 202/955-3536. To learn more about the DTC/NSCC link, please contact Bob Schultz at NSCC 212/510-0418. Stephanie Brown Marketing Director

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