

MEMO# 11570

January 24, 2000

NSCC RETIREMENT SERVICES

[11570] February 7, 2000 TO: OPERATIONS COMMITTEE No. 3-00 TRANSFER AGENT ADVISORY COMMITTEE No. 6-00 BANK AND TRUST ADVISORY COMMITTEE No. 3-00 BROKER/DEALER ADVISORY COMMITTEE No. 1-00 PENSION COMMITTEE No. 7-00 PENSION OPERATIONS ADVISORY COMMITTEE No. 4-00 RE: NSCC RETIREMENT SERVICES

Over the past several years many Institute members have contributed considerable time and effort on industry initiatives to improve retirement plan processing. These initiatives include automating the transfer of Individual Retirement Accounts and standardizing transaction processing between and among 401(k) third party administrators (TPAs), trust companies and mutual funds. Institute member leadership was instrumental in meeting these goals and resulted in the National Securities Clearing Corporation (NSCC) expanding Fund/SERV and Networking to create two new services, the Transfer of Retirement Assets Service (ToRA) and the Defined Contribution Clearance and Settlement Service (DCC&S). These clearance and settlement facilities were designed to reduce costs and improve service for the industry and its shareholders by eliminating or reducing paperwork, decreasing the amount of manual intervention and reducing transaction processing timeframes. For the past year or more, the intense focus on Y2K preparations slowed progress toward greater industry adoption of these new services. With the successful transition to the year 2000 now virtually complete, the Institute is joining with the NSCC in a renewed effort to recruit users and address any impediments to increased usage. Workshops and Presentations In an effort to encourage Institute members and their business partners to participate in these industry-created services, the Institute will make increased efforts during 2000 to work with industry members and the NSCC to promote wider use of these services. Our plans include developing a series of regional workshops and offering presentations to individual organizations. If your company is interested in a presentation on any of the NSCC services, particularly ToRA and DCC&S (or wishes to suggest another organization for us to contact about a visit), please contact Justine Phoenix at 202-326- 5850, or James DeRubertis of NSCC at 212-412-8442. Products such as ToRA and DCC&S were developed with substantial industry input to help ensure their wide acceptance. The Institute encourages its members to evaluate these services, consider them for use in their own organizations, and help promote interest among others. For those less familiar with ToRA and DCC&S, brief descriptions follow with directions for obtaining more information.

Transfer of Retirement Assets Service The Transfer of Retirement Assets (ToRA) service became available for use in 1996. Currently, 77 ICI member firms participate in this service. A function of Fund/SERV, ToRA enables mutual fund companies to initiate, acknowledge, confirm and settle its asset transfers. In addition to traditional IRAs, ROTH, SEP, SIMPLE, SARSEP and Education IRAs as well as 403b accounts can also be transferred. Participants in the service sign a Standard Agreement developed by an ICI task force. This agreement facilitated the reduction of paperwork by allowing the sender to maintain shareholder asset transfer requests on behalf

of the receiver. The ToRA service is currently available only for transfers among mutual funds. This year, the Institute and the NSCC will begin work to expand the service to banks, brokers, and insurance companies. One of the main goals of this service is to reduce the amount of time involved in transferring IRA assets from one mutual fund company to another. By eliminating the movement of paper and automating trade settlement, an asset transfer takes place in less than three days. This is a significant improvement over paper based transfers. A ToRA product sheet prepared by the NSCC has been attached. Further information is available on NSCC's website www.nsc.com or by calling the NSCC's Mutual Fund Hotline at 212/412- 8893. A copy of the Standard Agreement is available on the Institute's website- www.members.ici.org. Defined Contribution Clearance and Settlement Service The Defined Contribution Clearance and Settlement Service, implemented in 1997, was developed to centralize and automate the processing of mutual fund transactions for defined contribution retirement plans (predominantly 401(k) plans). DCC&S utilizes capabilities of the Fund/SERV, Networking and Mutual Fund Profile systems. Currently over 80 mutual fund companies are capable of receiving defined contribution plan trades via NSCC. There are over 50 banks, trusts, brokers and third party administrators (TPAs) utilizing the service. While initially designed as a tri-party service for communication and trade settlement between TPAs, funds, and plan trustees, it has been used almost exclusively as a two party system for a variety of reasons, including industry mergers between trustees and TPAs. DCC&S is capable of accommodating either arrangement. In order to assist new participants to implement and use this service, a task force of the Institute's Bank and Trust Advisory Committee prepared a reference document "Defined Contribution Guidelines," which is available on www.members.ici.org. Institute members should feel free to share this information with those trading partners that do not have access to the ICI website. An NSCC product sheet has been attached. Additional information on DCC&S is available on www.nsc.com or by calling James DeRubertis at 212-412-8442. This month, the NSCC held a user forum for current DCC&S participants. This was an opportunity for the user community to discuss the service and offer suggestions for operational and systematic improvements. If you would like to discuss any issues with the ToRA or DCC&S facilities, including impediments to utilizing the service or modifications that you believe would benefit the industry, please do not hesitate to contact Justine Phoenix at 202/326-5850 or the undersigned at 202/326-5845.

Benefits of Utilizing These Services These services help fund groups and their business partners process transactions in a more timely fashion with fewer delays and errors. The clear advantages are reductions in costs and increased efficiencies for all parties, with the most important benefit being improved service for mutual fund shareholders. With DCC&S, plan administrators eliminate the need to maintain separate links with multiple providers and plan trustees eliminate the need for multiple daily wire transfers in favor of a single, daily, consolidated net settlement. Another important benefit to participation is the creation of capacity to better accommodate future growth. Adoption of solutions created by industry members for the benefit of the entire industry frees resources engaged in inefficient, manual and non-standard processes. Moreover, as the securities industry increasingly embraces "straight through processing" to meet the demands of rising volumes and achieve the goal of T+1 settlement by 2002, use of industry utilities becomes increasingly more important from both a competitive and a regulatory perspective. As with any of the NSCC mutual fund services, as usage increases, participant fees are commonly adjusted downward to better match NSCC's rate of operating cost recovery. Along with cost reductions, mechanisms are available for users to participate in the continued development of the services. NSCC supports user forums as needed and the Institute coordinates ongoing enhancement advisory groups within the Broker/Dealer and Bank and Trust Advisory Committees. * * * * *

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ToRA, DCC&S, and the other NSCC industry utilities and for your continued diligent efforts. We look forward to hearing from you and working with you in the months ahead. Donald J. Boteler Vice President Operations & Training Attachments

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