

**MEMO# 2680**

April 10, 1991

## **STATUS OF COMMITTEE PROJECTS**

April 10, 1991 TO: TRANSFER AGENT ADVISORY COMMITTEE NO. 19-91 RE: STATUS OF COMMITTEE PROJECTS \_\_\_\_\_ The status of each of the Transfer Agent Advisory Committee's (TAAC) projects, as reported at the March 5, 1991 meeting, are summarized below.

1. Confirmation Requirements The Confirmation Requirements Task Force, chaired by Ralph Spuehler of Keystone, is studying the feasibility of reducing the number of confirmations sent to shareholders. The task force concluded that a complete elimination of immediate confirmations (in favor of monthly confirmation statements) for all transactions is not desirable from a shareholder service point of view. In addition, such a broad elimination might actually increase service problems and expenses as transaction errors would not be discovered on a timely basis. The objective of the task force now is to determine if fund groups are in favor of a limited reduction in confirmation requirements for certain transaction types. To obtain data for the industry regarding this issue, a survey was mailed to the Operations Committee and Transfer Agent Advisory committee on April 5, 1991. The survey will gather data regarding fund groups' confirmation procedures and their willingness to reduce confirmation mailings (for money market funds and non-money market funds) where dividend reinvestment, automatic investment and systematic withdrawal transactions are the only account activity. The survey results will be summarized and distributed to participating committee members as soon as possible. Upon conclusion, a recommendation will be made to the Institute's Operations Committee and legal department, to be drafted in a letter to the SEC.

-2- 2. Returned by Post Office (RPO) The task force has completed its review and agrees it would be appropriate to pass escheatment costs (which are now being allocated to all shareholders) on to the actual RPO accounts involved, assuming certain actions have been taken. The conclusions reached by the task force are being reviewed by the Institute's legal department and will be discussed at the next meeting of the Ad-Hoc Abandoned Property Committee. This committee consists of Institute members that deal with escheatment matters for own their fund group, who have volunteered to meet periodically with the ICI legal staff to review on-going abandoned property issues.

3. Legal Requirements/TA Signature Guarantees Project This task force, co-chaired by Cynthia Jones of Colonial and Janet A. Clifford of MFS, is analyzing the types of legal requirements that exist for certain types of transactions taking into consideration the ICI Mutual policy coverage for such items. Based on their review, recommendations for procedures (including limiting or reducing legal requirements) for certain transactions are being forwarded to the ICI Mutual Underwriting Committee for consideration of coverage. Several transactions were reviewed by the task force in January. The conclusions reached by the group were presented at the March 5th TAAC meeting, a summary of which are attached to this memo as Exhibit A. These recommendations / procedures have been forwarded to the ICI Mutual Underwriting Committee for review. The task force has also identified several other issues that will be reviewed at their next meeting which are also identified in Exhibit A.

4. Transfer of Assets

Survey The sub-committee assigned to evaluate Industry trends and practices relative to IRA Asset Transfers has completed its survey. The survey results and major conclusions drawn by the sub-committee were distributed to the Advisory Committee members on December 14, 1990. Responses included 12,658 incoming and 10,389 outgoing asset transfer requests. Major conclusions drawn from the results are:

- o On both incoming and outgoing transfers, the number of deficient requests ("not in good order") were significant as a percentage of total requests (5.0% for incoming and 10.7% for outgoing).
- 3- o On incoming transfers in good order, letter of acceptance issuance was generally timely (99% within 5 days). However, subsequent timely receipt of monies from prior custodians continues to be an issue (19% taking > 45 days) and improves only marginally when both sides of the transaction involves mutual fund companies. (Note: Follow-up practices are notably aggressive with all participants sending at least one notice).
- o Outgoing transfers - once the request was in good order, check issuance was very timely - 99.9% issued within 5 days

The survey results indicated that there were numerous reasons why requests received were not in good order and as a result, no discernible trends for the deficiencies were established. The sub-committee and the Advisory Committee agreed that to conclude this project, a second survey needs to be performed in order to provide more specific data regarding both the deficiencies that exist and the timeliness of monies transferred. A pilot group will be formed in the near future to monitor IRA transfers for a selected period in 1991. Advisory Committee members agreed to assign a dedicated individual from their fund group to track data for the second phase of this project. Both the Phase I and Phase II survey results will be used to formulate recommendations on how to improve transfers of IRA assets.

5. Tax Basis Accounting For Shareholders Barbara Moulding presented a summary of the work performed on this project to date and the conclusions drawn by the task force. The primary conclusion reached is that average cost is the preferred method (mainly because of storage). This conclusion is supported by the results of the Shareholder Basis Reporting Survey (TAAC No. 4-91). In addition, both the Task Force and TAAC members prefer that tax basis accounting for shareholders remains a service that is voluntarily provided by fund groups and not a regulatory requirement. The Institute is continuing to monitor for the possible inclusion of a shareholder basis proposal in any tax bill, however, it does not appear likely at this time. The Task Force is now going to review the application of the average cost method by members of the group and will attempt to identify issues which would need to be "standardized" in this process. Items to be considered include transfers and wash sales. An update of their progress will be reported at the June Transfer Agent Advisory Committee meeting.

-4- 6. Transfer Agent Regulatory Costs An ad-hoc committee was formed to research and define the cost of regulatory compliance as a component of total transfer agent charges. It is not known yet whether regulatory costs can be isolated by fund groups. If this is possible, such cost data might provide the statistical evidence needed to suggest that imposed regulations have contributed to the rising cost of doing business. This information would be useful for both fund directors and regulatory bodies. The Ad-Hoc Group, chaired by Robert Guillocheau of TSSG, have developed a matrix of regulatory cost components which will be incorporated into a survey and circulated to the TAAC in April. Preliminary survey results will be presented at the June meeting. Upon conclusion of this project, we will consider incorporating regulatory cost analysis into future transfer agent cost studies.

7. Survey of Book Versus Physical Shares This survey was circulated to Advisory Committee members in December 1990 to assist the Institute in its work as a participant on the Group of Thirty U.S. Working Committee. The purpose of the survey is to update our general understanding of the form in which mutual fund shares are presently being issued and the overall composition of shares (book versus physical) outstanding. Fifteen of the twenty-one surveys circulated were returned which are currently being analyzed. The survey results

will be distributed to the Advisory Committee members as soon as possible. 8. Postal Service Eligibility Requirements for Automated Rate Categories A Postal Service Task Force was established to provide an industry viewpoint and more specifically mail volume data for use in communications with the Postal Service regarding future rate changes. Members of the Task Force are: Susan Cornwell - Oppenheimer Shareholder Services Jim Olshefski - DST Systems Jim Bailey - Massachusetts Financial Services Ed Falvey - Keystone Investor Resource Center Barbara Moulding - AT&T American Transtech -5- The task force is developing a questionnaire to be used in gathering mail volume statistics for the industry. This data will be quite useful in light of the importance of postal rates to our industry as well as for use in future communications with the Postal Service. The Postal Service has issued the final rule (see Transfer Agent Advisory Committee No. 7-91) relating to eligibility requirements for automated rate categories (the "Rule"). At the March TAAC meeting a question was raised about the effect the new Rule has on mailing costs. The following explanation is based on discussions with a member of the Postal Service staff who worked on the Rule and a member of the Board of the Postal Customer Council who is with Watson Mailing Service. If your company was receiving Zip+4 or Zip+4 barcoded rates before the new Rule became effective on February 24, 1991, in order to continue to receive the same rate, you or your mailer must comply with the stricter requirements of the new Rule. Zip+4 and Zip+4 barcoded rates are a discount from the standard First Class or Third Class rates. If you are unable to comply, you will no longer receive the discount from the standard rate and your mailing costs will increase. \*\*\*\*\* The next Transfer Agent Advisory Committee meeting will be held on June 18, 1991 in Boston, MA at 9:30 a.m. at the Bostonian Hotel. A separate meeting notice will be mailed by the Institute to Committee members in the near future. Thank you for your participation. Your continued involvement on these projects is greatly appreciated. William H. Smith Chairman Attachment