

MEMO# 8825

April 21, 1997

CHECK AGING STUDY

April 21, 1997 TO: OPERATIONS COMMITTEE No. 13-97 TRANSFER AGENT ADVISORY
COMMITTEE No. 19-97 RE: CHECK AGING STUDY

Attached are the results of the Operations Committees Check Aging Study. This is a study of checks presented for mutual fund share purchases during the month of November, 1996. It was performed in an effort to determine when monies from checks deposited into mutual fund accounts are clearing through the Federal Reserve System. The results of the study have aided mutual funds in establishing appropriate redemption policies where fund shares are purchased by check. Participants Fifty firms participated in the survey representing 913 funds. A list of the participating firms is attached. (Exhibit I.) Please note that survey results pertain only to the 913 funds participating in this survey. Check Clearance Through Banking System The results show that for the month of November, 1996, a total of 1,590,379 shareholder checks were deposited and cleared. In order to determine the number of days in which checks clear through the banking system, we asked participants to provide 1.) a breakdown of the number of checks which were returned by the bank and 2.) the number of days elapsed from the date of deposit to the date of return. Please note that this is a measurement of the elapsed time from date of deposit to date of return and not an attempt to measure the time in which the check actually cleared through the banking system. This methodology is consistent with prior Operations Committee Check Aging Studies. For the month of November, a total of 2,450 checks were dishonored or returned by the bank. Of these, a total of 2,093 checks or 85% were returned within 10 days of deposit. Within 15 days of deposit, 2,277 checks or 93% of the checks were returned. (Exhibit II.) Participants were asked to provide a reason for checks returned 11 days or later after deposit. We received information on 282 of the 357 checks that were returned 11 days or later. Of those 282 checks, 75% were returned due to insufficient funds, 12% were returned due to a stop payment on the check, and 8% were returned because the account was not on file. A breakdown of the reasons for checks returned after 11 days is attached. (Exhibit II.) The Operations Committee conducted Check Aging Studies from the period of July 1980 through November 1996. (No studies were conducted from the period 1992-1995.) Studies conducted in 1988, 1989, and 1991, after implementation of the Federal Reserve rules under the Expedited Funds Availability Act, showed improvement in check clearance. However, in the May, 1996 study it appeared that checks were not clearing as quickly as they were in 1991, with only 92% of checks returned within 15 days. This observation was repeated in the November 1996 results. In the November, 1996 study, 93% of check cleared within 15 days in contrast to 98% in 1991 and 97.8% in 1989. A summary of the previous Check Aging Studies from 1987 through 1996 have been attached for your convenience. (Exhibit III) Fund Hold Policy Participating funds were asked to provide information regarding the number of calendar (or business) days a fund may delay the

mailing of redemption proceeds while waiting for a purchase check to clear. The number ranges from 7 to 15 days. Of the firms responding to the survey, 23 firms or 45% have a hold policy of 15 calendar days and 12 firms or 24% have a hold policy of 10 calendar days. (Exhibit IV) Participating funds were also asked to provide the number of redemption requests in which proceeds were delayed because they were received during the funds hold period. For the month of November 1996, participants indicated that 1,399 redemption requests were delayed as they were received during the funds hold period. We would like to thank all the participating firms for providing information for this Check Aging Study. If you have any questions regarding the study, please contact the undersigned at 202/326-5850. Justine Phoenix Director - Operations/ Transfer Agency Attachments (in .pdf format)

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