

MEMO# 3056

August 28, 1991

STATUS OF COMMITTEE PROJECTS

August 28, 1991 TO: TRANSFER AGENT ADVISORY COMMITTEE NO. 39-91 RE: STATUS OF COMMITTEE PROJECTS _____ The status of each of the Transfer Agent Advisory Committee's (TAAC) projects, as reported at the June 19, 1991 meeting, are summarized below.

1. Confirmation Requirements The Confirmation Requirements Task Force, chaired by Ralph Spuehler of Keystone, has completed a survey which gathered data regarding fund groups' confirmation procedures (for money market and non-money market funds) and their willingness to reduce confirmation mailings for certain transaction types. The questionnaire was distributed to members of the Operations and Transfer Agent Advisory Committees on April 5, 1991. Forty responses were received which represented a 67% response rate. These responses included 1,164 mutual funds with 29.5 million shareholder accounts representing 37% and 47% of the industry, respectively. The survey results have been distributed to both committees (see Operations Committee No. 25-91 and Transfer Agent Advisory Committee No. 37-91). Discussions with task force and Committee members and the survey results indicate that fund groups have virtually no interest in eliminating immediate confirmation statements for voluntary investment and voluntary redemption (non-check/draft) transactions. However, a number of respondents indicated that they are interested in eliminating immediate confirmation of dividend reinvestment, automatic investment and systematic withdrawal transactions. Based upon the survey results, the task force intends to pursue this matter with the Institute's legal department to determine what actions are necessary (i.e., SEC no-action letter, etc.) in order to allow funds the optional ability to eliminate the immediate confirmation of certain automatic or systematic transactions. Highlights of the survey results and a progress report will be presented at the September TAAC meeting.

-2- 2. Returned by Post Office (RPO) The task force completed its review several months ago 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. At the June TAAC meeting, one member indicated that they had received an opinion from their outside counsel which would support such treatment. The conclusions reached by the task force have been forwarded to the ICI legal department and will be discussed at the next meeting of the Ad-Hoc Abandoned Property Committee, who meet periodically with the ICI legal staff to review on-going abandoned property issues.

3. Legal Requirements/TA Signature Guarantees Project This task force is continuing to analyze the legal requirements that exist for certain types of transactions taking into consideration the ICI Mutual Insurance policy coverage available for such items. The task force is co-chaired by Cynthia Jones of Colonial and Janet A. Clifford of MFS. 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 and the conclusions reached by the group were presented at the June

19th TAAC meeting. Two items, source documents received by facsimile and exchange of fraud information, will be presented for discussion at the fall ICI Mutual Underwriting Committee meeting along with previous recommendations made by the task force in March 1991.

4. Transfer of Assets Survey Jan Clifford of MFS is in the process of planning the second phase of the transfer of assets project. The Phase I survey results indicated that there were numerous reasons why IRA transfer requests received were not in good order and as a result, no discernible trends for the deficiencies noted were established. The sub-committee and Advisory Committee members 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. The sub-committee is meeting in September to develop the Phase II questionnaire which will be sent to a pilot group (eight fund -3- groups which were previously surveyed in Phase I of the project) in October 1991. The Advisory Committee members in the pilot group have agreed to assign a dedicated individual to track data in the second phase of this project. The survey is expect to be complete early in 1992 and both the Phase I and Phase II survey results will be used to formulate recommendations on how to improve transfers of IRA assets.

5. Shareholder Basis Reporting A significant amount of work has been performed by the Institute in assisting Congressional staff in outlining a shareholder basis reporting proposal. A "mutual fund tax bill" H.R. 2735, has been introduced by House Ways and Means Committee Chairman Rostenkowski and several others. (See TAAC No. 31-91). One section of the bill would amend the reporting requirements of Internal Revenue Code section 6045 to impose upon mutual funds and brokers the obligation to provide to shareholders and the Internal Revenue Service average cost basis information for shares redeemed. This reporting requirement would apply only to accounts opened on or after January 1, 1993. The Institute met with members of the Tax Committee and Transfer Agent Subcommittee on Shareholder Basis Reporting on August 1, 1991 to discuss numerous operational and tax issues underlying the proposal. The Institute will be testifying on the proposal before the House Ways and Means Committee September 17, 1991. The status of the proposal and a summary of the August 1, 1991 meeting will be reported at the September 19th TAAC meeting.

6. Transfer Agent Regulatory Costs An ad-hoc group, chaired by Robert Guillocheau of TSSG, was charged with researching and defining the cost of regulatory compliance as a component of total transfer agent charges. Although regulatory costs are difficult to isolate, 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, consisting of three mutual fund groups and two external transfer agents, defined six broad expense categories and cost methodologies for collecting regulatory cost data. A survey incorporating this research was completed by the ad-hoc group in May 1991. The survey captured "identifiable" annual regulatory costs for the six expense categories from 1990. The survey results were distributed to the TAAC at the June 1991 meeting. A comparison of the data gathered from the individual fund groups and from the two external transfer agents showed consistent results. The -4- survey methodology will be used to aid in the development of a regulatory cost section in the 1991 ICI/Coopers & Lybrand Transfer Agent Cost Study.

7. Survey of Book Versus Physical Shares This survey was circulated to Advisory Committee members to assist the Institute in it's 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 and the results will be distributed to Advisory Committee members prior to the September 19th meeting.

8. Online TIN Verification Project The Internal Revenue Service Computing Center in Martinsburg, West Virginia is developing

a system that will allow payors to immediately confirm TIN's. This system will enable mutual fund groups to batch new TIN's (this will include the name control - first four digits of the last name and the nine digit TIN) as frequently as daily to the IRS and receive confirmation immediately. A task force of Advisory Committee members was formed at the June TAAC meeting to assist the Institute's legal department with this project on an as needed basis. Members of the task force are: Jim Whittamore - T. Rowe Price Jim Fitzpatrick - TSSG Jim Olshefski - DST Systems, Inc. Jim Flanagan - Kemper Brian Fitzgerald - Scudder Use of the online TIN verification system will not change current tax reporting requirements or relieve payors from W-9 certification. However, the system will aid payors by identifying mismatched TIN's in advance that will ultimately generate B-Notices. Keith Lawson (ICI legal department) has recently contacted the IRS in Martinsburg, who has indicated the development of the system is still in it's preliminary stages and that a prototype of the system should be complete by year end. The IRS is currently evaluating their hardware requirements for this system and would like to informally gather information from Advisory Committee members on the daily volume of new accounts. A separate memo to gather this information from Advisory Committee members will be mailed in the near future. -5-
***** A meeting agenda for the September 19, 1991 Transfer Agent Advisory Committee meeting, which will be held starting at 9:30 a.m. at the Embassy Row Hotel in Washington, D.C., will be mailed by the Institute to Committee members in the near future. Thank you for your participation and support. William H. Smith Chairman
Kathleen C. Joaquin Director - Operations/ Fund Accounting

Source URL: <https://icinew-stage.ici.org/memo-3056>

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.