

MEMO# 7500

December 20, 1995

ICI BROKER DEALER ADVISORY COMMITTEE UPDATE

December 20, 1995 TO: BANK BROKER/DEALER ADVISORY COMMITTEE No. 28-95
BROKER/DEALER ADVISORY COMMITTEE No. 31-95 OPERATIONS MEMBERS No. 52-95
TRANSFER AGENT ADVISORY COMMITTEE No. 62-95 RE: ICI BROKER DEALER ADVISORY
COMMITTEE UPDATE

The following is a summary of the highlights of the Broker Dealer Advisory Committee meeting held Monday, November 27, 1995 in San Francisco, CA. Enhancements Review A comprehensive review of the activities of the Enhancements Committee was provided. Some highlights of the discussion are provided following: Mutual Fund Profile - NSCC is moving on with work on the Price/Rate piece and expects to have that module available for testing by users in late first quarter '96. Subsequent to completion of that module, the NSCC will begin work on the Member Cusip and Dividend Declaration modules and the PC interface. Addition of Alpha Sort Name to Fund/SERV Record - A request has been raised by AIM to add the Alpha Sort field to the Fund/SERV record. The purpose of this enhancement is to allow funds and firms to share their alpha sorts, which are used for expedited account look up. The problem with the idea is that each firm and each fund appears to have its own alpha sort convention. The Enhancement Committee will undertake a survey of firm practices and fund preferences regarding alpha sort conventions. The outcome of this survey will determine the opportunity for standardization in this area, and, hence, the future of this enhancement request. Firm Side Settlement Cycle Override - Smith Barney has requested a broker initiated settlement cycle override so that brokers can request settlement cycles other than T+3 for funds in which they are trading. Reasons for this request included the business brokers are doing in the 401(k) and Institutional channels, and having to do business where retail customer proceeds may be exchanging between a load and a no-load. The group explored several of the possible implications of enabling such an override, including: portfolio impact; potential for abuse (i.e. broker buys T+3 and sells T+1); and the need for an NSCC rule change. A sub-committee was formed to make a recommendation on this proposal based on a thorough examination of all the implications. The sub-committee is composed of: Mary McKenzie (Colonial) Chairperson, Al Rubin (Smith Barney), Al Vayda (Prudential), Rich Snyder (AIM), Ed Falvey (Keystone), Tom Iandolo (Lord Abbott) NSCC Update With the review of current enhancements requests completed, the group turned its attention to the NSCC Update. highlights of this update were as follows: Announcement of Fund Industry/NSCC Alliance - The NSCC will be serving as the Fund Industry's service utility on two upcoming high profile clearinghouse efforts involving the processing of 401(k) daily transaction activity and the processing of retirement asset transfers. In response to this choice, the NSCC has reconfigured its approach to the fund industry, so that, going forward, John Vrettos will be the designated chief contact for all NSCC mutual fund centered

activities. Further, the NSCC has pledged to provide the fund industry an additional seat on its board by year end '95, and an advisory council of senior fund industry operations executives has been convened to provide input on fund matters to Vrettos, NSCC President David Kelly, and the NSCC Board.

Same Day Funds Settlement Update - Implementation for Same Day Funds Settlement begins with all trades settling Thursday, February 22, 1996. At present 175 of 270 fund groups have provided the NSCC with a settling bank. On the firm side the proportions are somewhat better. The NSCC continues with its public appearance and print efforts to get the concept across to users, to prompt users to name a settling bank, and to have users prepared internally for Same Day Funds Settlement.

Same Day Confirms - The NSCC indicates that firm orders making it into the 5:00pm cycle are virtually assured of being confirmed same day. Paine Webber indicated that this has not been the case in the range of its experience and so Paine Webber and the NSCC will examine PW's order flow more closely.

Statistical Update - For October, 1995, Fund/SERV orders ran at an average rate of 48,000 per day and daily net settlement amounted to approximately \$540M. 211 Firms, 268 Fund Complexes, and 6,400 Cusips currently comprise the Fund/SERV system. As for Networking, there are 130 Firm users, 224 Fund users, and 13.8M sub-accounts. Currently on Networking 7 firms account for half of all accounts and 5 funds account for half of all accounts. In ACATS Fund/SERV 108 firms and 72 funds are now participating, and in Commission Settlement 37 firms and 68 funds are participating.

Fund/SERV Market Share Analysis - Based on a research the NSCC has been conducting, it has been determined that Fund/SERV accounts for approximately 45% of all non-proprietary sales force mutual fund purchase dollars on an average monthly basis. However, in real terms, this proportion fluctuates considerably on a monthly basis, and the NSCC has indicated that it will conduct further studies to try to determine why.

Fund/SERV Treatment of Money Market Funds Discussion of this topic focused on the way in which Fund/SERV treats Money Market Funds. Money Market Funds are a separate security type of Fund/SERV with a T settlement. Since brokers and funds do almost no T business, funds typically list Money Markets as either Loads Funds (T+3 settlement), or, less often, as No-Load Funds (T+1 settlement). The problem is, NSCC places an edit on the security type field, meaning that, if a firm identifies a Money Market with a security type that differs from the security type on the fund profile, the trade rejects, causing exposure to either firm or fund. As a result, an enhancement request has been submitted to the NSCC to lift the edit on the security type field.

Broker Dealer Proprietary Funds Use of Fund/SERV and Networking During 1st Quarter '96, Paine Webber and Prudential Securities will embark upon a pilot program wherein they will Network with each other and trade positions they have in each others' funds via Fund/SERV. Appropriate selling group and servicing agreements will have been executed to allow for this to happen, and Smith Barney, Raymond James, Merrill Lynch, Hilliard Lyons and Piper responded in the affirmative when the brokerage community was polled as to whether firms intended to follow on Paine's and Pru's lead.

Year End Re-Classification Deadline The deadline for funds for providing year end reclassification to firms is end of business Monday, January 8, 1996.

ICI Update The group was updated with respect to the Transfer of Retirement Assets Clearinghouse, which will utilize existing Fund/SERV functionality. Currently record types have been defined to facilitate such transfers, and a legal working committee is developing an indemnification document for receiving and delivering institutions. Current estimates are that a pilot group will be processing within the Clearinghouse environment by late 2nd Quarter or early 3rd Quarter of next year. The group was also updated on the development of the 401(k) Daily Processing Clearinghouse. Presently, an advisory committee is being convened to begin working with the NSCC to develop logical specifications for the service.

Open Session The Committee hosted an open session and approximately 15 people showed up. They had few questions, and so the bulk of open session time was taken up reviewing how the Broker

Dealer Advisory Committee functions, the role of the Enhancements Review Committee, and procedures for submitting enhancements requests. Next Meeting The next meeting of the Broker Dealer Advisory Committee will take place the afternoon of Wednesday, February 7th and all day Thursday, February 8th at the Merrill Lynch facility in Jacksonville, FL. The Enhancements Committee meeting will precede the Broker Dealer meeting, taking place the afternoon of Wednesday, February 7th. The full Broker Dealer meeting will take place Thursday, February 8th. While there will not be an Open Session for guests, if you have issues you wish to see on the agenda, please contact Kevin Farragher (202/326-5848) or Mark Harris (816/880-7506). As always, if you have NSCC system service enhancement requests, please contact Chris Hayes at NSCC 212/412-8679 Kevin Farragher Director of Operations Distribution & Service. 4

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