



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

DIVISION OF
INVESTMENT MANAGEMENT

November 9, 2005

Mr. Neils Holch
Executive Director
Coalition of Mutual Fund Investors
400 North Capitol Street, N.W., Suite 585
Washington, D.C. 20001

Dear Mr. Holch:

Thank you for your October 20th letter to Chairman Cox discussing the transparency of mutual fund omnibus accounts. The Chairman referred your letter to the Division of Investment Management for our review and consideration.

Your letter describes some of the difficulties associated with omnibus accounts that mutual funds have encountered in attempting to police market timing, assess redemption fees, and provide breakpoint discounts. You also recommend that the Commission study omnibus accounting, with a focus on the feasibility of using the National Securities Clearing Corporation ("NSCC") order and account processing platforms to provide investor-level information to funds. I share many of your concerns about the lack of transparency in mutual fund omnibus accounts, and agree that the NSCC may provide important services for increasing funds' knowledge of omnibus account activity.

A number of efforts are currently under way to enhance omnibus account transparency through NSCC systems. As you know, the Commission recently adopted rule 22c-2, which is designed to enable funds to obtain investor-level information on transactions by those who invest through omnibus accounts. In response to the adoption of that rule, funds and intermediaries are engaged in an effort to standardize the transmission of investor-level information exchanges through NSCC systems, as well as through other channels. We understand that there is a joint task force, sponsored by the ICI and SIA, exploring the use of the NSCC systems for this purpose. These efforts are further described in the article "Redemption Fee Rule Fuels Demand For New Standards," which I am enclosing. The NSCC has also expressed a readiness to enhance its "networking" systems to include information on investor-level activity for all of its members, should circumstances require it.

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Efforts are also under way to utilize NSCC systems to address concerns with sales load breakpoints. The NSCC has developed a database of mutual fund breakpoint schedules and policies (known as "Profile") that serves as a central repository of breakpoint information. Nearly all of the major fund complexes have contributed information to Profile. A significant number of broker-dealers are upgrading their systems to integrate Profile data into their operations, with the upgrades often allowing for the sharing of underlying investor-level data with funds and intermediaries so that all investors receive the proper breakpoint discounts. As described in the attached article, "Morgan Stanley Takes Tough Breakpoint Stance," at least one large brokerage firm now refuses to distribute any fund that does not participate in the Profile service.

As you note in your letter, the NSCC is a valuable resource in enhancing the transparency of omnibus accounts for funds, and these recent and proposed system changes may assist in reaching that goal. We look forward to future developments in this area, which may determine the need for further Commission action to address any unresolved issues. Thank you for bringing this to the Commission's attention, and I appreciate the time and effort you and your organization have spent in commenting on these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert E. Plaze", with a horizontal line extending to the right.

Robert E. Plaze
Associate Director



All that's hot in the mutual fund industry
Issue published on
Nov 02, 2005.

An Information Service of Money-Media

Still More Fidelity Changes Ahead?

Article published on Nov 2, 2005

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Fidelity may not be finished shaking things up, Reuters reports.

In recent months the fund giant has engineered a string of fee cuts, an overhaul of its analyst teams, upper-management shufflings and, this week, the changing of the guard at its flagship Magellan¹ fund.

But there's reason to believe that more changes are ahead, says John Bonanzio, an editor of the independent *Fidelity Insight* newsletter.

After two years of seeing Fidelity lag both **Vanguard** and **American Funds** in asset flows, company chief Ned Johnson is intent on putting a stop to that, Bonanzio tells Reuters.

And news last week that Johnson's daughter, Abigail Johnson, had surrendered her majority-voter status to her father signals that the elder Johnson is letting the world know he's back in charge, Bonanzio adds.

Johnson isn't likely to stop pressing for changes until Fidelity starts gaining ground again, according to Bonanzio.

The next round of changes, however, won't probably be as dramatic as what we've seen so far, he says.

Among the reforms may be changes in how some funds are managed, with more funds moving to team management, Bonanzio says.

By Joe Morris

(News summaries based on original reports in other publications are prepared by the Ignites.com staff and are not created, sponsored, approved or endorsed by the publications to which the original reports are attributed.)

- To read this story as it originally appeared in *Reuters*, [click here](#)².

Morgan Stanley Takes Tough Breakpoint Stance

Article published on Nov 2, 2005

By Tom Leswing

NEW YORK — **Morgan Stanley** will stop distributing funds from investment shops that fail to participate in a new breakpoint service, one of the firm's executives said at an industry conference here yesterday.

Not all fund firms have contributed information to a breakpoint database offered through the **Depository Trust & Clearing Corp.**, according to Gregory Spero, executive director of mutual fund operations at Morgan Stanley. The breakpoint database seeks to help broker-dealers offer discounts on large purchases of fund shares by giving distributors a central source of breakpoint information.

"We have sought letters from fund firms that say they are committed to adding breakpoint data," Spero said during the National Investment Company Service Association East Coast Regional Committee meeting yesterday. "If they aren't on board by the end of the year, we are going to cancel our selling agreements with them."

Among fund firms that have selling arrangements with Morgan, only four or five haven't contributed data to the service, he said. They tend to be smaller shops, he added. Spero suggests that those firms have failed to do so simply because they haven't been aware of the need. With awareness of the breakpoint database increasing, he predicts more fund shops will add data to the service.

Indeed, reports show that participation in the service by fund firms has been improving. The DTCC, for example, has

previously said that 85% of firms that should add information to the database have done so. That number is expected to increase.

Either way, that figure represents a big increase from the end of last year. At that time, only 35% of DTCC subsidiary National Securities Clearing Corp. member fund firms that charge sales loads had contributed information on their breakpoints to the service.

It's not surprising that Morgan Stanley is taking the hard-line approach, according to Sam Campbell, an analyst with **Financial Research Corp.** "Distributors really were the ones in the hot seat, so it makes sense to me that they would come out and say that," Campbell says, discussing the matter in a telephone interview after the conference.

The database is the brainchild of an NASD special task force that was created after regulators found that a handful of broker-dealers weren't consistently applying breakpoints. The discovery resulted in 15 brokerage firms' agreeing to pay more than \$21.5 million in fines and over \$86 million in disgorgement in February 2004.

Spero also said that Morgan Stanley wants to give its advisors easy access to the database during the next month or two. Additionally, it wants to integrate data from the breakpoint data service into its trading system by next summer.

In the meantime, the firm has found a variety of instances where information in the database hasn't been accurate.

One example involved the types of shares classes that could be combined when assessing breakpoints, according to Spero. Information entered into the breakpoint database was different than information shown on the fund firm's website. Another discrepancy surfaced regarding breakpoints that occur when an investor buys shares of a fund after having recently sold shares of the same fund.

"We are going to be following up on this, because it is something that is going to be driving our trading system," Spero said.

Gathering breakpoint information needed for the database can be a substantial project, said Elisa Colkitt, vice president, broker operations at **Delaware Management**, also speaking at the Nicsa meeting. Colkitt is a member of an ICI broker-dealer advisory committee that is encouraging fund firms to participate in the breakpoint database.

"The data resides in multiple locations with a large fund complex," she said, explaining some of the challenges of contributing data to the service.

Nevertheless, Delaware has been contributing the data because it believes that it's important to help its distribution partners apply breakpoints, she said.

In a related matter, the NASD's new website service that provides information on fund fees, breakpoints and sales commissions was launched yesterday, according to Jonathan Davis, associate vice president, compliance information and services with the NASD. The site is designed to help financial advisors and investors research fund expenses and sales loads, he said.

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Putnam Outflows Dog Marsh's Rising Profits

Article published on Nov 2, 2005

By Marc Hogan

Putnam continued to face dwindling revenues and assets under management last quarter, parent company **Marsh & McLennan** announced yesterday.

The fund shop earned revenues of \$371 million in the third quarter this year, down 11% from the same period in 2004, according to Marsh & McLennan, or MMC. Average assets under management for the quarter were \$195 billion, declining from \$209 billion a year earlier.

In all, Putnam managed \$192 billion as of Sept. 30, with \$129 billion in mutual funds. By comparison, Putnam had \$209 billion in total assets under management, including \$140 billion of fund assets, on the same date in 2004.

Meanwhile, MMC reported net income of \$65 million, or 12 cents per share, up from \$21 million, or 4 cents per share, a year before.

Putnam is well on the mend from its recent troubles involving sagging fund performance and regulatory scrutiny, MMC president and CEO Michael Cherkasky said yesterday in a conference call held to discuss MMC's quarterly results. He added that the fund unit still has room to improve.



All that's hot in the mutual fund industry

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Redemption Rule Fuels Demand for New Standards

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Article published on Oct 26, 2005

By Tom Leswing

AUSTIN — Developing a model anti-market timing agreement for use with intermediaries and standards for transmitting trading records could go a long way in helping fund shops comply with Regulation 22c-2.

That was one consensus among panel members yesterday during the ICI 2005 Operations and Technology Conference.

Costs to fund firms and intermediaries of complying with the rule have been estimated at more than \$1 billion, according to estimates by research and consulting firm **TowerGroup**. Much of that cost will result from fund firms' having to forge written agreements that will require broker-dealers to enforce anti-market-timing policies.

Additional costs will result from fund firms' having to develop technology for screening through trading records to search for market timers. Firms have to comply with the rule by Oct. 16, 2006.

"The agreement process alone for this rule is going to be a bit cumbersome," said Stuart Bateman, a vice president with **Franklin Templeton**. "It makes sense to think about this rule in advance to make sure you have the right resources in place."

T. Rowe Price, for example, has identified approximately 400 omnibus accounts with which it expects to enter into anti-market-timing agreements, said Laura Chasney, an associate counsel with the firm. Depending on the final SEC definition of intermediaries, however, the number could be substantially higher. Under the current rule, intermediaries are defined as non-natural account holders, such as broker-dealers, retirement plans and bank trust departments.

Bateman added that the industry is working to develop a model agreement for fund firms to use with broker-dealers. That way, fund firms and intermediaries won't have to review and revise hundreds of individual agreements.

The model agreement should be kept simple and address only the requirements of 22c-2. This will make it easier to create a document that will be acceptable to a large number of fund firms and intermediaries, Chasney said.

T Rowe, for its part, is planning on entering into new agreements with broker-dealers, rather than modifying existing selling contracts. Reworking existing contracts would be too complicated, she said.

Dan Boteler, vice president of operations with the ICI, said in an interview that the organization expects to create a task force to forge the model agreement. It's held off on doing so until the SEC provides clarification on the definition of intermediary. As a result, discussions on creating such a document have been limited to informal gatherings at industry events, he said.

Panelists also discussed a need for industry standards for brokers to use when transmitting trading records to fund firms. By having a standard format for the data, fund firms could automate the collection and analysis of the information.

"We don't want to have 600 agreements [with intermediaries] and have 600 different ways to receive the data," Bateman said. "If we can get to two or three ways to do it, it will make the process more palatable."

An industry task force is currently developing standards for broker-dealers to use when transmitting trading records, added John Villegas, who recently left **ADP** to join **Charles Schwab**.

The task force is creating standards for broker-dealers to transmit data to the **National Securities Clearing Corp.**, or NSCC. It is also working on standards for firms that don't trade through the NSCC. The NSCC is a subsidiary of the Depository Trust & Clearing Corp., or DTCC.

The task force is drafting best practices for firms to follow when retrieving data and evaluating the information. The group is also working to build awareness of the need for technical standards throughout the industry.

Gail Weiss, a co-founder of **Gail Weiss & Associates**, said that a substantial number of firms don't trade through the NSCC and it is therefore necessary to develop standards for those shops. Her firm provides a variety of services for

the retirement plan industry, including software for firms that want to send trades through the NSCC.

"Fewer banks [than broker-dealers] have embraced the DTCC, so having a non-DTCC solution will be important," she said. Additionally, many smaller third-party retirement plan administrators don't have the resources to develop links to the DTCC.

At the same time, getting all intermediaries to comply with standards could be a challenge, she added.

"Different firms will want different data," she explained. "But third-party plan administrators will probably send out all of the information. There are differences among capabilities of TPAs."

Differences in state regulations may also complicate matters. Privacy regulation, for example, may require some broker-dealers to send data that is encrypted, added Chasney.

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