

IMPORTANT NOTICE

National Securities Clearing Corporation



A# 6213
P&S# 5783
DATE: March 8, 2006
TO: ALL PARTICIPANTS
ATTENTION: MANAGER MUTUAL FUNDS OPERATIONS,
MANAGER DATA PROCESSING, MANAGER CASHIERS,
MANAGER P&S DEPARTMENT
FROM: MUTUAL FUND SERVICES
SUBJECT: NSCC SERVICE TO SUPPORT SEC RULE 22C-2

On August 7, 2006, NSCC's Mutual Fund Services will introduce new functionality to its Networking Service, which will standardize and automate the request and transmission of shareholder trading information required under SEC Rule 22c-2. This information will be used by funds to monitor the frequency of trading by discrete investors in omnibus accounts, and to ensure that the fund's market-timing policies are being enforced. The project to develop this new functionality was undertaken with the Investment Company Institute's Standardized Data Reporting Working Group, which worked with DTCC to define the functionality and systems design requirements.

The functionality to support a standardized data reporting mechanism will utilize a new data processing stream that will be accommodated in the Networking Service. A description of the processing for standardized data reporting is provided below. Additional information on the use of the functionality is also available in the "Standardized Data Reporting User Guide-Technical Overview and Sample Scenarios" and "Standardized Data Reporting User Guide-Best Practices." Both documents, as well as the SDR record layouts, may be found on NSCC's Mutual Fund Services website, <http://funds.dtcc.com>.

Background

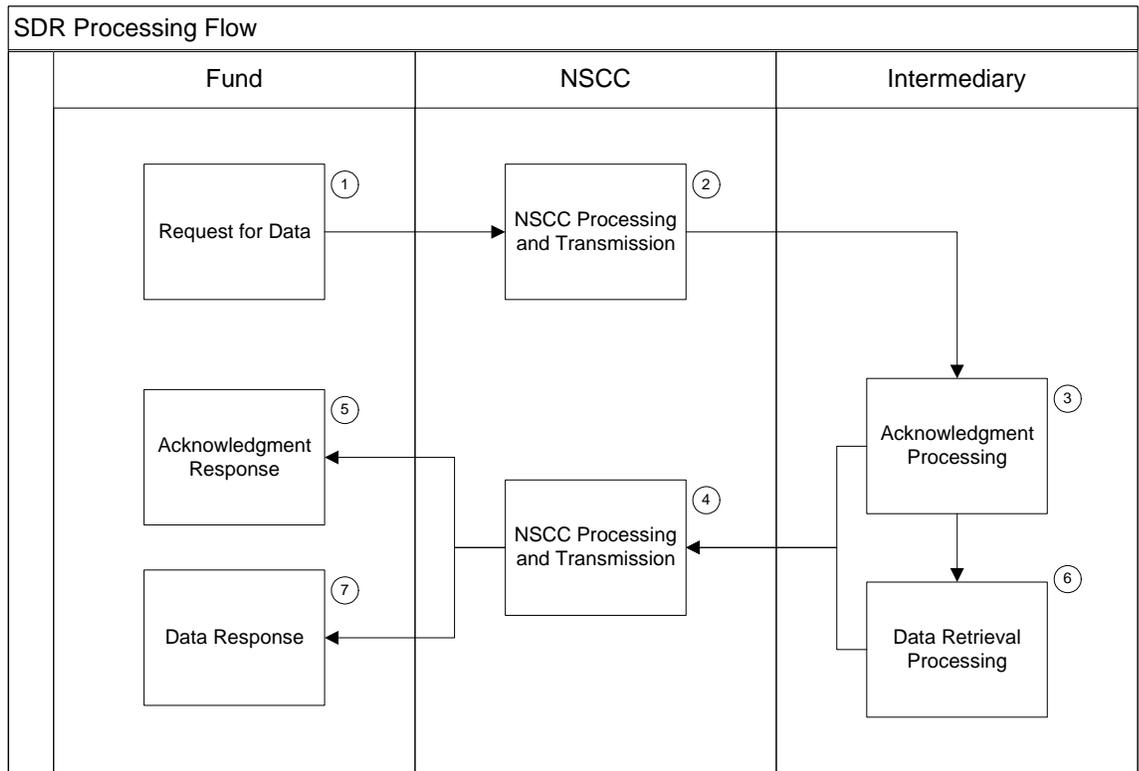
SEC Rule 22c-2 requires mutual fund companies to enter into written agreements with their distribution intermediaries, whereby the intermediaries must, upon request, provide funds with certain shareholder identity and trading information for positions that are held in omnibus accounts.

Mutual fund shares that are purchased by investors through broker dealers, banks, insurance companies, and retirement plan administrators ("intermediaries") may be combined with other investors' fund shares and registered in the name of the intermediary in a single omnibus account. In order for the funds to monitor and evaluate discrete shareholders for frequent trading, the funds must be able to identify the investors and their respective trading activity within the omnibus account. The Rule went into effect on May 23, 2005, with a compliance date of October 16, 2006.

New Functionality on Networking

NSCC’s planned enhancement to Networking will provide a robust mechanism for fund companies to request data from intermediaries, and for intermediaries to provide the necessary shareholder trading information required under Rule 22c-2. The following flowchart depicts the processing of information among the fund companies, intermediaries, and NSCC.

The fund will submit a request to the intermediary for data through NSCC, and the request will then be forwarded to the intermediary. The intermediary will respond initially by providing an Acknowledgment, which will be returned to the fund via NSCC. The intermediary will then continue to process the request and retrieve the appropriate data. Once the data is ready, the intermediary will send it to NSCC, which will then forward the information to the fund.



Fund Data Request

Funds will be able to request various types of data and receive detailed shareholder information on omnibus accounts. The selection of data provided on the request will be used to refine the response required from the intermediary.

Acknowledgment

The initial response from the intermediary to the fund will be an Acknowledgment record. The Acknowledgment will be the first indication to the fund that the intermediary has received the request for information. Intermediaries will also indicate on the Acknowledgment whether the information will be provided by the intermediary, or the request will need to be forwarded to another party that maintains the information.

Intermediary Data Response

Data responses from the intermediaries will be at a summary level for super omnibus accounts, or at a detail level for a single omnibus account or shareholder. An omnibus account is an account held at the fund, representing assets of multiple investors. An example is a 401(k) plan. A super omnibus account is an account, held at the fund, containing assets of more than one omnibus account and potentially assets of individual shareholder accounts held by the intermediary.

When a request is submitted for detailed information in a super omnibus account, intermediaries will return summary data for plans or omnibus accounts that are contained within the super omnibus account. Detailed information may also be returned for individual shareholder accounts that are a part of the super omnibus account.

When a request is submitted for information in a non-super omnibus account, such as a 401(k) plan account, or for information on a single individual identified by a Social Security number, intermediaries will return detailed data for the individual investor(s). The detailed data will be used by the funds in their surveillance for frequent trading in omnibus accounts.

Intermediary Reject

Intermediaries may reject the fund's data request and will use a Reject record to do so. An appropriate reject code will be provided. A full listing of reject codes is available on the Mutual Fund Services website.

NSCC Reject

NSCC will be running edit-checks of data records submitted by funds and intermediaries. Files or records that do not pass NSCC validation will be returned to the submitter with the appropriate reject code.

Note that a set of response records may be partially rejected. For example, a response may contain ten detail records and one of those records may not pass validation. NSCC will reject the single record, and return it to the intermediary along with an NSCC-generated header and trailer to complement the rejected record.

NSCC Reminders

NSCC Reminders are records that will notify the fund and intermediary that an appropriate response has not been made to a fund's request for data. NSCC will generate a Reminder record for any request that has not been acted upon with either an Acknowledgment record or a Reject record. Reminders will be sent at the end of the day for a maximum of 10 processing days (including Saturday), beginning on the day after the date of the request.

SDR Record Types

The following new record types will be used. Please refer to the record layouts and the SDR User Guides for a technical overview and best practices. To be consistent with the naming conventions on Networking, intermediaries will be referred to as a Firm using the originator code of "B." Underlying intermediaries or firms, which are related entities that transact with the funds through services provided by a first-tier intermediary may be identified with an originator code of "U", and may also use the system to send shareholder trading information to the fund.

<u>Record Type</u>	<u>Submitted By</u>
Record Type 20 = SDR Request	Fund (F)
Record Type 21 = SDR Header	Firm (B), Underlying Firm (U)
Record Type 22 = SDR Acknowledgment	Firm (B), Underlying Firm (U)
Record Type 23 = SDR Reject	Firm (B), Underlying Firm (U)
Record Type 24 = SDR Detail	Firm (B), Underlying Firm (U)
Record Type 25 = SDR Summary	Firm (B), Underlying Firm (U)
Record Type 27 = SDR Trailer	Firm (B), Underlying Firm (U)
Record Type 28 = SDR Reminder	NSCC (N)
Record Type 29 = SDR Grand Total Trailer	B, U, and F

Other records that will be used for the process include:

<u>Record Type</u>	<u>Submitted By</u>
Datatrak Header	All
Datatrak Trailer	All
Autoroute Header	All
NSCC Output Header	NSCC

Datatrak/Autoroute Processing Schedule

Data files for the new functionality will be assigned new Datatrak SYSIDs and Autoroute Numbers, listed below. Input of flat files using FTP or NDM will occur three times each day by 9 a.m., 12 noon, and 3 p.m. ET, Monday through Friday, and Output will occur by 10 a.m., 1 p.m., and 4 p.m. ET, Monday through Friday. Processing on Saturday will also be available, and will occur at 9/10 a.m., 12/1 p.m., **2/3 p.m.** (Input/Output). Processing through PSE will occur using the same time schedule on Monday-Friday.

Production	Datatrak SYSIDs	Autoroute Numbers
SDR Fund Data Request	26398	02100298
SDR Firm Data Response	26327	02100327
PSE		
SDR Fund Data Request	46398	02980298
SDR Firm Data Response	46327	02980327

Input/Output Schedule:

Input Deadline		Output Time	
Monday-Friday	Saturday (Production Only)	Monday-Friday	Saturday (Production Only)
9 am ET	9 am ET	10 am ET	10 am ET
12 pm ET	12 pm ET	1 pm ET	1 pm ET
3 pm ET	2 pm ET	4 pm ET	3 pm ET

XML Input for Fund Data Request

Communication of XML messages will also be supported for the submission of the fund data request. The XML message will be converted by NSCC using the flat file record format and processed for validation. The resulting output will be in a flat file format and will be sent via Autoroute.

XML messages will be supported using http(s) protocols, and will be sent to NSCC via leased line or the Internet using digital certificates. Submission of data request messages through the http(s) facility will be supported from 6 am ET to 5 pm ET, Monday-Saturday, with provisions for systems maintenance. The submission of XML messages will also be subject to the mainframe processing schedule for routing through NSCC's Autoroute system.

Participants wishing to use the http(s) facility should contact Participant Interface Planning at 212-855-8989 to receive more information on communications setup. XML Schemas for the fund data request may be found on the Mutual Fund Services website.

Implementation Schedule

The new Networking functionality will be effective on the PSE Region (Test) on July 31, 2006, and on Production on August 7, 2006. Participants are encouraged to test on PSE before moving into Production. Participants wishing to test must contact the Enterprise Service Center (ESC) by calling the NSCC Production Support Hotline at 212-855-1144, option 5, option 2. To ensure proper setup for the PSE region, at least three days prior notice should be provided to ESC.

Service Fees

Networking fees will apply to this new functionality. The participation fee for Networking is \$200 per month. Current Networking participants will not be required to pay an additional participation fee. Standard Networking processing fees of \$.0025 per transaction will also apply to all users of this functionality. Transactions for this new feature on Networking include data request, acknowledgment, intermediary reject, detail, summary, and NSCC reminders. An additional fee for input of XML messages may also apply, and may be described in a subsequent Important Notice.

Networking Participation Fee:	\$200.00
Processing Fee:	\$.0025 per transaction

Questions and comments regarding this Important Notice may be directed to Mutual Fund Services at 212-855-8877, your relationship manager, or the undersigned at 212-855-5671.

Paulino B. Bucaoto
Mutual Fund Services