



Shops Debating Plans for Looming 22c-2 Deadline

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By Christopher Witkowsky

With the next major deadline for 22c-2 compliance a little more than five months away, some shops have yet to establish a final game plan, a number of industry observers and vendors say.

Rule 22c-2, also known as the redemption fee rule, mandates that firms devise a way to gather data from intermediaries about investors and transactions to protect against market timing. The compliance deadline is Oct. 16.

Fund firms previously had to meet an April deadline associated with 22c-2. For that portion, they had to have completed agreements with intermediaries in place in order to share information.

Most firms are outsourcing the grunt work associated with compliance with the rule, according to the Investment Company Institute, which includes gathering information from intermediaries on investors and transactions, storing the data and analyzing it and setting up criteria by which certain transactions or investor actions can be flagged as violations.

Very few firms are keeping the job in-house and figuring out ways to build their systems manually. Service providers predict those firms will eventually dole out the responsibilities once they get a sense of the size of the tasks involved.

And, while many fund shops have not finalized their plans, most have begun preparing for compliance with the rule, according to Bob Ward, chief operating officer at Sungard's STN business.

"In the last three months the fund families' focus has turned up even more," Ward says.

Fund shops "all know they need to be prepared but are in different stages of preparedness. Some thought they could do it manually," says Frank Polefrone, senior vice president with Data Access Corp.

Data Access, for one, offers a product and service to fund firms for compliance with the redemption fee rule.

Access Data's product gathers information about investors and transactions from

intermediaries, stores it all in an electronic warehouse-type setup and governs the data with rules set up by the client to detect market-timing violations. The data brought into the warehouse is all standardized so it all looks the same, Polefrone says.

Polefrone says his company works with many larger fund firms that need to outsource this job.

“We added three to four new clients in the last 60 days. We’re seeing across the board that the funds are interested in outsourcing,” Polefrone says.

Ward, whose company Sungard offers a similar product, says it has 40 clients signed up for outsourcing help with compliance with 22c-2. He says the top 100 firms in terms of assets under management are looking for some form of outsourcing help for 22c-2.

The problem with gathering, storing and analyzing data manually is that the process is inefficient compared to the automated versions now offered by various companies. Data collected manually is also not as secure, according to Denise Grant, relationship manager, wealth management services with The Depository Trust & Clearing Corp.

Also, funds will receive information about investors and transactions in various formats when they get it over the phone or by fax, rather than in one standardized template as is the case with the automated versions.

Currently, “if a firm asks for information from five different firms” they’d get it back five different ways, Grant says.

DTCC offers its participants an easy way to request data from intermediaries, who would then send the data back through DTCC’s central warehouse to the fund firm. This relieves the fund firm of the job of phoning or faxing its requests for data.

Brian Jones, executive vice president of Envision Financial Systems, says that along with the company’s regular clients, the firm is aware of fund firms that have recently signed up for outsourcing work or who are still deciding on how they’re going to handle compliance with the rule. He declined to name names

“There are a lot of people who have not yet decided what technology to use,” Jones says. “Our customer base is all squared away and ready to go, but there are firms that are still deciding what to do.”

Wells Fargo is one firm that has signed on for its service. John Roehm, spokesman with Wells Fargo Advantage Funds, says the firm is now in the final testing phase of its 22c-2 software. He adds that they are in good shape to meet the upcoming deadline due to inking the deal early.

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