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**The Bond Market Association's Annual Awards Dinner**

The Bond Market Association honored Peter R. Fisher, Managing Director at BlackRock and former Under Secretary of the U.S. Treasury, at its Annual Awards Dinner on October 20, 2004 at the Marriott Marquis Hotel in New York City. Mr. Fisher received the Association's Distinguished Service Award. Established in 1991, the Distinguished Service Award recognizes the accomplishments of individuals who have had a significant impact on the bond markets while serving as a public official at the federal, state, or local level, or as a member of the private sector.



Mr. Fisher was honored with this award in recognition of his roles at both the Treasury and at the Federal Reserve Bank of New York. At the Treasury Department, Mr. Fisher led critical initiatives such as a broad restructuring of Treasury debt management practices, including the expansion of inflation-indexed issuance. He took leadership roles in reopening the financial markets following September 11, 2001, the implementation of the post-September 11<sup>th</sup> airline loan guarantee program, and Administration policies on FDIC reform, and served as the Treasury representative to the Pension Benefit Guaranty Corporation.

Proceeds of the dinner benefited The Bond Market Foundation, the non-profit charitable and educational partner of The Bond Market Association. The Foundation's primary mission is to promote financial literacy to targeted groups including women, young people, and the Hispanic community through interactive websites that can be found at [www.tomorrowmoney.org](http://www.tomorrowmoney.org).

**AMF Quarterly Meeting and Swaps Workshop**

The Asset Managers Forum will hold its fall Quarterly Meeting on Wednesday and Thursday, October 27 and 28, 2004. On October 27, the AMF will host a full day conference concerning the status of the Forum's Swaps Best Practices Initiative. This conference will entail a series of presentations from the leadership of the following AMF Swaps Subcommittees that are developing best practices: Compliance; Confirm/Legal; Maintenance; Trade Execution; and Valuation.

On October 28, the Forum will conduct a business meeting for professionals affiliated with member organizations. This full day session will feature meetings of the various standing committees of the Forum, including those relating to Accounting Policy, Pricing and STP. Furthermore, at the business meeting, the AMF membership will vote on the proposed new 2005 slate of Steering Committee members. More details regarding the Steering Committee nominees as well as registration information and the agenda items for the October 27 Swaps Conference and the October 28 Committee meetings will be forthcoming.

To register for Swaps Workshop click on the following link: <http://www.bondmarkets.com/story.asp?id=1468>

To register for the AMF Quarterly Meeting click on the following link: <http://www.bondmarkets.com/story.asp?id=1470>

For further information, please contact [Toni Mollo](#), [Diane Trupia](#) or [Joseph Sack](#) of the staff of the AMF at 646-637-9200. Also, for an update concerning the advocacy activities of The Asset Managers Forum, please visit our web site at [www.theassetmanager.com](http://www.theassetmanager.com). Questions regarding the AMF Swaps Initiative may be addressed to staff members [Douglas Taggart](#) or [Elisa Nuottajarvi](#) at 646-637-9200.

**UPCOMING EVENTS**

- **October 27th**  
AMF Swaps Workshop
- **October 28th**  
AMF Quarterly Meeting

## Educational Series: STP and the Lifecycle of a Trade Part VI:

By Joan Cheney, FFTW

In the previous article, communication of trade information from the Investment Manager to the custodian was discussed. Reconciliation was mentioned as a way of ensuring that trade information has been communicated correctly. An Investment Manager will typically reconcile cash and positions with custodians. As the custodians serve as the official books and records for separate client accounts, it becomes the responsibility of the manager, who is executing trades on behalf of the account, to ensure that these records are correct.

The two types of reconciliations that should be done on a regular basis are cash reconciliations and position reconciliations. [Cash reconciliations](#) reconcile trades, coupons, paydowns, and other cash movements. Cash "recs" are cumulative, meaning that the rec would have to balance yesterday in order to balance it today. [Position reconciliations](#) reconcile a snapshot of holdings for a particular day between the investment manager and the custodian. Investment managers differ in their position on how frequently cash and position recs should be done, but the industry standard is that both are done regularly – and one or the other should be done daily.

Another layer of complication is added with the consideration of reconciling pending versus settled trades in the cash rec process. While an argument can be made that reconciling pending trades for cash could prevent fails, the difficulty in obtaining complete data may not make the effort worth the result. In addition, cash recs that are done on a daily basis using settled trade information should ensure that failing trades are settled on a Settlement Date + 1 basis – a satisfactory period of time for most Investment Managers.

How trade information is communicated back to the Investment Manager from the custodian could also be a significant factor in how frequently cash and position recs are done. Custodians that are able to provide information either electronically via the web, or via SWIFT, not only make the fully manual reconciliation process easier and more timely, but also facilitate automation. Some smaller custodians, however, still provide information via autofax on a daily basis, or sometimes even monthly in hardcopy. Reconciling to these custodians is a fully manual process, and usually lead to recs being done less frequently.

Several vendors offer solutions for the automation of reconciliations. These solutions have the capability to pull in data received electronically, normalize the data, and match the information with that used by the Investment Manager. The software provides both an engine for the matching of items and a reporting capability that will provide information on matched and unmatched items. These software solutions typically involve the following steps, which altogether, still require manual involvement to a certain (albeit much smaller) extent:

1. The gathering and matching of electronically-provided data;
2. The manual matching of data for items where there is no common identifier, but other fields match;
3. The reporting of matched and unmatched items; and the post-reporting stage of the investigation of problems.

Trade information for cash recs require even more manual intervention than position reconciliations, which could require a greater allocation of resources.

In order to make the effort that goes behind creating an STP system worthwhile, it is necessary to ensure that information being transmitted to the parties involved is correct. While extensive automation ensures that trade, compliance, and operational risk is greatly reduced, the chance of miscommunication of information to the custodian by the Investment Manager, or of an error on the part of the custodian still exists. Reconciliation is the last part of the tradeflow process, but is perhaps one of the most important.

*If you found this Educational Series on STP and the Lifecycle of a Trade informative and would like to learn more about another topic, please forward your suggestion to [enuottajarvi@bondmarkets.com](mailto:enuottajarvi@bondmarkets.com) or [dtaggart@bondmarkets.com](mailto:dtaggart@bondmarkets.com).*

*If you have any comments, please contact Joan Cheney at [jcheney@fftw.com](mailto:jcheney@fftw.com) or staff of the AMF.*

## Mutual Fund Industry Regulatory Status as of September 30, 2004

By Candace Cavalier, Brian C. Poole, and Brian F. Link,  
Investors Bank & Trust

The Securities and Exchange Commission (SEC) continues with the frenetic pace of rulemaking. Since August 1, 2004, there have been 6 new rules and 3 new proposed rules. Some of the most noteworthy regulatory initiatives are discussed in the following paragraphs.

### Investment Company Governance

On July 27, 2004, the SEC adopted amendments to the Investment Company Act of 1940, as amended ("Investment Company Act") **to require investment companies that rely on certain exemptive rules to adopt certain governance practices.** The amendments are designed to enhance the independence of fund boards.

#### New Requirement

The new amendments require a fund relying on the exemptive rules listed below to satisfy the fund governance standards set forth in Rule 0-1(a)(7) under the Investment Company Act, including:

- (i) at least 75 percent of the directors of the fund (or trustees of a trust) must be independent<sup>1</sup> or, if the fund board has only three directors, two directors must be independent;
- (ii) the chairperson of the board must be independent;
- (iii) the board must perform a self-assessment at least once annually;
- (iv) the independent directors must meet separately at least once a quarter; and
- (v) the independent directors must be affirmatively authorized to hire their own staff.

#### Amended Exemptive Rules

The SEC amended the following exemptive rules:

**Rule 10f-3** (permitting a fund to purchase securities in a primary offering when an affiliated broker-dealer is a member of the underwriting syndicate);

**Rule 12b-1** (permitting use of fund assets to pay distribution expenses);

**Rule 15a-4(b)(2)** (permitting a fund board to approve an interim advisory contract without shareholder approval when the adviser or a controlling person receives a benefit in connection with the assignment of the contract);

**Proposed Rule 15a-5** (permitting manager of managers funds to operate without obtaining shareholder approval when the fund's principal investment adviser hires a new subadviser or replaces an existing subadviser);

**Rule 17a-7** (permitting securities transactions between a fund and another client of the fund's investment adviser);

**Rule 17a-8** (permitting mergers between certain affiliated funds);

**Rule 17d-1(d)(7)** (permitting a fund and its affiliates to purchase joint liability insurance policies);

**Rule 17e-1** (specifying conditions under which a fund may pay commissions to affiliated brokers in connection with the sale of securities on an exchange);

**Rule 17g-1** (permitting a fund to maintain joint insured bonds);

**Rule 18f-3** (permitting a fund to issue multiple classes of voting); and

**Rule 23c-3** (permitting the operation of an interval fund by enabling a closed-end fund to repurchase shares from investors).

#### Annual Self-Assessment

The annual self-assessment or evaluation must consider the effectiveness of the Board's committee structure and the number of funds on whose boards each director or trustee serves.

#### Separate Sessions of Independent Directors

Although this new rule does not require specific matters to be discussed at the separate sessions of the independent directors, the staff of the SEC expects the independent directors to discuss the performance of a fund's investment adviser and other service providers.

#### Compliance Dates

The new amendments go into effect on September 7, 2004 and the **compliance date is January 16, 2006.** Commencing **January 16, 2006**, a fund may rely on the above-listed exemptive rules only if the fund complies with the new investment company governance standards **and** with the new recordkeeping requirements of amended Rule 31a-2. **SEC Release Nos. IC-26520, File No. S7-03-04.**

<sup>1</sup> "Independent director" is used to refer to a director who is not an "interested person" as defined in Section 2(a)(19) under the Investment Company Act.

## Mutual Fund Industry Regulatory Status as of September 30, 2004

(continued...)

### Disclosure Regarding Portfolio Managers of Registered Management Investment Companies

On August 23, 2004, the SEC adopted rule and form amendments to Form N-1A, Form N-2 and Form N-3, the registration forms used by registered management investment companies. The new rule and amendments enhance the existing requirement that a fund disclose basic information in its prospectus concerning its portfolio managers to include specific information regarding each member of its management team. The amendments also require a fund to disclose additional information about its portfolio managers, including other accounts that they manage, compensation structure, and ownership of securities in the fund that they manage.

### Portfolio Manager Disclosure Requirements

The rule will require the following disclosure regarding the fund's portfolio managers:

- Identification in a fund's prospectus of each member of a committee, team or other group of persons that is jointly and primarily responsible for the day-to-day management of a fund's portfolio (or, in the case of a team with more than five such members, the five members with the most significant responsibility for the day-to-day management of a fund's portfolio).
- Disclosure in a fund's statement of additional information ("SAI") of information regarding other accounts for which a fund's portfolio manager is primarily responsible for the day-to-day portfolio management including a description of material conflicts of interest that may arise in connection with simultaneously managing a fund and other accounts as well as a description of the policies and procedures used by a fund or a fund's adviser to address any such conflicts.
- Disclosure in a fund's SAI of the structure of, and the method used to determine, the compensation of each portfolio manager required to be identified in the prospectus including a description of the structure of compensation received by a portfolio manager from a fund, the adviser or any other source with respect to management of a fund and any other account included by a fund in response to the disclosure requirement regarding other accounts managed by the portfolio manager.
- Disclosure in a fund's SAI, of each portfolio manager's ownership of securities in a fund. This information must be provided in a tabular format and use pre-determined dollar ranges for securities owned.

The required information regarding other accounts managed by a portfolio manager, compensation structure and ownership of fund securities must be provided as of the end of a fund's most recently completed fiscal year. The date as of which the information is provided must be disclosed.

### Availability of Information

To assist investors in finding the additional information about portfolio managers that is now required in the SAI, the amendments also require a fund to provide in its prospectus, adjacent to the disclosure identifying its portfolio managers, a statement that the SAI provides additional information about the portfolio manager's compensation, other accounts managed by the portfolio manager and the portfolio manager's ownership of securities in a fund. Moreover, the back cover page of a fund's prospectus must now state whether a fund makes available its SAI and annual and semi-annual reports, free of charge, on or through its Web site at a specified Internet address. If a fund does not make it SAI and shareholder reports available in this manner, a fund must disclose the reasons why it does not do so.

### Closed-end Funds

In addition to modifications to Form N-2 which are similar to those for Form N-1A, the amendments also add new Item 8 to Form N-CSR. New Item 8 requires closed-end funds to provide disclosure regarding their portfolio managers in their annual reports on Form N-CSR. This disclosure includes name, title, length of service and business experience as well as the disclosure required regarding other accounts managed by a portfolio manager, compensation structure and ownership of fund securities.

### Compliance Dates

The new rule and amendment become effective on October 1, 2004. All registration statements on Forms N-1A and N-2, including post-effective amendments, filed on or after February 28, 2005, must include the disclosure required by the amendments. Closed-end funds must include the disclosure required by the amendments in all annual reports filed on Form N-CSR for fiscal years ending on or after December 31, 2005 and in all semi-annual reports filed on Form N-CSR after the first such annual report is filed. **SEC Release Nos. 33-8458, 34-50227, IC-26533.**

*The material contained in this article is provided for general information purposes only and does not constitute legal or other professional advice.*

## ASK THE AMF

Dear Ask the AMF,

*My firm has gradually developed a good sized relationship with a Japanese client such that we now manage a lot of money for them. We now see that they require that all trades match to the penny. This causes problems for us because we have automated matching systems with our broker/dealers, and there are tolerances built in to allow for matching with small money differences. We would have to change the tolerance for all of our accounts in order to prevent the trades in question from matching with penny differences. If the trades settle for an amount different than our own, the client requires that we amend the trade notification and resend it. Is this a general issue in the industry, and what can be done to mitigate the effect?*

You may not know, but this column is uniquely qualified to answer your question. The team of experts writing this column have traveled all over the world addressing operations issues in the local markets. Having said that, there is no easy solution to this issue.

This issue could be considered a cultural difference between Japanese and American financial services professionals. Neither side is right or wrong, but each has a different view on whether money differences on trades are acceptable. The bottom line is that if you want to do business with those clients it is important to find a way to adapt to the requirements.

There may however, be strategies that can help. For example, if matching occurs on trade date or on T+1 and if a broker/dealer sends a confirm to the asset manager before the matching occurs, an asset manager may be able to use the confirm as a "pre-match" and determine if there is a difference. Once the difference is identified, the counterparties could communicate to correct their records so that the trades match exactly.

An Asset Manager may also consider using the subcustodian to buffer the differences. If they can settle the trades with the penny differences and then report the trades to the client on a contractual basis, this may avoid the issue.

Keep in mind that it is simply a cost of doing business with the local clients, and anything that you can do to minimize the cost and effort is a benefit.

The views expressed in this article may not necessarily reflect the views of The Asset Managers Forum or its members.

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AMF Newsletter

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Candace Cavalier, IBT

Brian C. Poole, IBT

Brian F. Link, IBT

Douglas Taggart, TBMA

If you have submissions for the next AMF  
newsletter, please e-mail Diane Trupia

## JOIN THE AMF!

The AMF is now accepting applications  
for membership from asset managers,  
custodian banks and vendors.

For more information on joining the Forum,  
please contact Diane Trupia.

## ASSET MANAGERS FORUM

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