

**Securities Industry Association**

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April 28, 1997

Barry Barbash, Esq.
Director
Division of Investment Management
US Securities and Exchange Commission
450 Fifth Street N.W.
Washington, DC 20549

Re: Mutual Fund Portability

Dear Mr. Barbash:

This letter is in further response to the letter from Mr. Jack Murphy dated December 18, 1996, concerning the portability of mutual fund shares. After receiving Mr. Murphy's letter, I replied to him with a letter dated January 31, 1997, indicating support for mutual fund portability and advising that SIA would conduct a formal survey of its membership to elicit the information that the staff sought. A significant number of SIA member firms that are active in the mutual fund industry responded to the survey. SIA has completed tabulating those responses. We attach a copy of the survey results. Briefly, the survey determined the following:

- The vast majority of responding members enthusiastically support enhanced portability.
- Less than half of responding members indicated their customers raised the portability issue on a frequent or somewhat frequent basis.
- Three quarters of responding members indicated that mutual fund shares at their firms were currently very or somewhat portable. However, only about one-third indicated that significant progress was being made to enhance portability.
- The categories of funds that tend to be the least portable are no-loads, proprietary funds, and funds which do not participate in the National Securities Clearing Corporation's ("NSCC") Fund/Serv, Networking and ACAT/Fund Serv systems (mostly no-loads).
- Lack of willingness to enter into dealer agreements for legal or business reasons was also cited as an impediment to increased portability.
- No respondents cited any provisions under the federal securities laws or self-regulatory body ("SRO") rules that would discourage portability, and most indicated that the Securities and Exchange Commission ("Commission") should consider adopting rules to facilitate wider use of computerized systems which would encourage greater portability. Respondents generally did not make specific recommendations for regulatory action, but several respondents noted that facilitating increased participation in automated transfer and sub-accounting systems such as NSCC's ACAT Fund/Serv Link and Networking

should be a major regulatory objective. Sub-accounting provides individualized customer account data to facilitate the exercise of fund privileges such as dividend and capital gains reinvestment, rights of accumulation and the like. No one, however, explicitly endorsed requiring fund sponsors and broker-dealers to sign dealer agreements. Survey respondents noted that such agreements present significant business and legal issues, particularly with respect to statutory underwriter status.

- Most responding firms did not see cost as a significant impediment to increased portability, or at least considered such costs to be subordinate to improving customer service.

While the willingness of broker-dealers and mutual funds to enter into dealer agreements in certain circumstances may prevent universal portability, expanded participation in automated transfer and sub-accounting systems can certainly increase it. Indeed, automated sub-accounting through Networking is already significantly reducing the cost of processing dividend reinvestment, rights of accumulation and other privileges of mutual fund ownership, and making it more economically feasible for broker-dealers to hold non-proprietary fund positions. Additionally, broker-dealers with proprietary funds are showing increased willingness to enter into reciprocal agreements with other broker-dealers to enable such funds to be transferred between them. We believe this trend will continue, as will technological refinements to automated systems which will further reduce sub-accounting costs. Therefore, except possibly with regard to encouraging use of automated systems, we do not believe regulatory action would be either necessary or helpful.

To underscore the importance of mutual fund portability, a workshop on the subject has been included in SIA's Annual Operations Conference to be held April 30th to May 3rd in Orlando, Florida. The results of SIA's survey will be presented, and discussion will include, among other things, rules, issues and constraints relating to mutual fund processing and how portability benefits and impacts customers. We hope the workshop will have a constructive effect in furthering efforts to enhance portability.

SIA is committed to enhancing mutual fund portability because it is in the best interests of investors. We look forward to working with the Commission, mutual funds, broker-dealers, SROs (including clearing agencies), and other trade groups to enhance portability. We appreciate the opportunity to address this issue and hope you will find the information provided to be useful. Please feel free to contact Michael D. Udoff, Secretary and Assistant General Counsel at (212) 618-0509 or me at (202) 296-9410 if we can be of further assistance.

Sincerely yours,

Stuart J. Kaswell
Senior Vice-President and General Counsel

cc: Lawrence H. Kaplan, Esq.
Thomas M. Selman, Esq.
Frances Stadler, Esq.
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