

The logo for DTCC (Dodd-Frank Data and Trade Clearing Company) is displayed in a large, bold, white, sans-serif font. The letters are closely spaced and have a slight shadow effect. The background of the logo area is a dark grey grid pattern.

Securing Today. Shaping Tomorrow.®

**Statement of Michele Hillery
Executive Director, Clearing Services, DTCC**

Before the ERISA Advisory Council

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Thank you for the opportunity to provide you with information on DTCC's Automated Customer Account Transfer Service (ACATS). My name is Michele Hillery and I am an Executive Director in the Equity Clearing Product Management Group at DTCC.

Background - What is ACATS?

DTCC's Automated Customer Account Transfer Service (ACATS) automates and standardizes procedures for the transfer of assets in a customer account from one brokerage firm and/or bank to another.

ACATS enables eligible brokerage firms and/or banks to efficiently and automatically enter, review, and settle the transfer of customer accounts between each other. The service standardizes transfer procedures, reduces operating costs, and speeds transaction settlements. ACATS enables the transfers of many different types of assets, including, but not limited to, equities, mutual funds, cash, corporate and municipal bonds, unit investment trusts, options, annuities, and other investment products.

ACATS was developed in response to an industry problem. Prior to its development, the transfer of customer assets from one broker to another was neither quick nor streamlined. The process was manual, delays were common and it was not uncommon for a transfer to take upward of 30 days, limiting customer access to their accounts and their assets during that extended period. The root of the delays was the manual process around transfers and the lack of standardization, which manifested itself in inconsistent, incomplete or incorrect data.

In 1985, ACATS was developed in response to brokerages' need for an automated account transfer system. ACATS was quickly mandated for use by the New York Stock Exchange and the National Association of Securities Dealers, Inc. for member firms that are participants of a registered clearing agency, such as NSCC. The regulatory departments of these two organizations have since combined to form the Financial Industry Regulatory Authority (FINRA). FINRA requires that broker-dealers transfer customer accounts quickly and efficiently. ACATS is designed to transfer an account pursuant to the schedules in FINRA Rule 11870.

ACATS is used by most self-clearing brokers with retail customer accounts and by a growing number of banks. [Broker is the term used throughout the remainder of the document, however, all information also applies to member banks.]

ACATS Process Flow

The ACATS transfer process occurs over a number of days, typically between three to five days with four being the norm. There are multiple steps and ACATS operates as a communication hub between the receiving broker and the delivering broker. As noted earlier, ACATS provides a standardized workflow for brokers to follow and provides standardized formats with industry agreed-upon guidelines on what data to pass and the formats of that data.

1. The ACATS transfer process is "receiver initiated", meaning that the broker receiving the account will initiate the process. The receiving broker submits a client authorized request through ACATS to the delivering broker. The delivering broker either acknowledges the move and identifies the assets belonging to the customer account or rejects the transfer. Transfers are "in kind" meaning that they move from one broker to the other without change to them.
2. If the transfer is not rejected, the receiving broker reviews the asset list and confirms that it can support each of the asset classes.
3. DTCC generates a settlement report that lists all securities scheduled to settle and sends it to the receiving and delivering broker.

4. On the ACATS settlement date, assets are moved between the brokers and the transfer completes.

The transfer process is supported by a set of technologies that are sensitive to the needs of all ACATS users. Because use of the service is mandated by FINRA, DTCC has been sensitive to developing it in such a way to allow easy access to all covered brokerage firms, regardless of size. The service can accommodate input from large players in the market through file input and smaller players through a web interface. Output is likewise accommodating to both ends of the spectrum and available through file output or report output.

DTCC provides support to the industry throughout the entire transfer process in a number of ways.

1. First and foremost, it serves as a neutral and trusted third party for the transmission of data from one broker to another. NSCC, a subsidiary of DTCC that supports ACATS, has been designated as a Systemically Important Financial Markets Utility and it operates under enhanced regulatory oversight. This provides ACATS users with a sense of certainty and security in its operations, the resiliency of the system, and the security of their data.
2. DTCC also serves as a key voice in the maintenance of the service, responding to industry needs for enhancements to the product as the markets evolve, as technology progresses and as regulation places requirements on its users. DTCC is a permanent member of the Securities Industry Financial Markets Association's (SIFMA) Customer Account Transfer Division.
3. DTCC plays host to the maintenance of critical documentation supporting the service such as User Guides, Best Practices, Frequently Asked Questions and other documentation. DTCC hosts a regularly scheduled industry working group to ensure that an open discussion forum is available to all users of the system.

Benefits of the Service

At its core, ACATS is a communication protocol and a system that edits and validates the formats and flow of data. It allows its users to communicate using a workflow that is predictable in format and timing.

1. Centralizes, standardizes, automates, and accelerates the transfer of customer accounts.
 - o DTCC acts as the central hub for the transmission of data and creates a single point through which data can be passed from one broker to any other broker within the system. This creates one point for input and one point for output for all users of the service.
 - o DTCC, in collaboration with the industry, developed a set of standards that provide the necessary detail to move the assets from one broker to another.
2. Allows transfer to be processed between 3-5 business days.
 - o A standard transfer process typically takes 4 days. The system supports multiple processing cycles, including accelerated settlement.
3. Accommodates various processing capabilities, including automated CPU-to-CPU transfers and secure internet communications.
4. Creates cost saving opportunities.

5. Permits broker dealer Members to comply with FINRA requirements regarding the transfer of customer accounts.
6. Built for scale – the ACATS system processes on average 12,000 full transfers daily with an associated 125,000 assets per day and is sized to accommodate, without impact to the systems throughput at least twice that number. It also processes additional transactions such as partial transfers and residual credits that bring the overall daily transaction levels to 30,000 transfers daily with associated assets per day in excess of 150,000.
7. ACATS interfaces with numerous settlement locations to streamline the settlement process.

In summary, ACATS has developed into a critical component of the financial services infrastructure to ensure that retail customer assets move quickly and efficiently from one broker to another.

We appreciate the opportunity to present an overview of the service to the council and for providing the opportunity to consider the ACATS framework as a potential infrastructure solution to the automated movement of 401K accounts.