

272

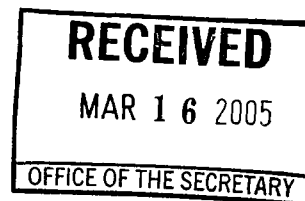
MEMORANDUM

**TO:** Public Comment File No. S7-27-03

**FROM:** Adam Glazer  
Office of Regulatory Policy  
Division of Investment Management (“IM”)

**DATE:** March 15, 2005

---



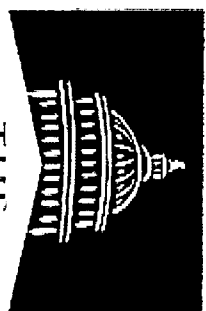
On March 9, 2005, representatives of The SPARK Institute, Inc. (“SPARK”), Wachovia Corporation, MassMutual Financial Group, and The Depository Trust & Clearing Corporation met with staff members of the U.S. Securities and Exchange Commission to discuss issues relating to the Commission’s proposed rule amendments concerning the pricing of investment company shares in Investment Company Act Release No. 26288 (Dec. 11, 2003) (“Late Trading Proposal”). The following Commission staff members attended the meeting: Robert Plaze, Associate Director, IM; C. Hunter Jones, Assistant Director, IM; Penelope Saltzman, Branch Chief, IM; Adam Glazer, Attorney, IM; John G. Niarhos, Senior Risk Advisor, Office of Risk Assessment (“ORA”); and Annette M. Capretta, Senior Risk Advisor, ORA.

The representatives discussed aspects of (i) the alternative approach to the Late Trading Proposal described in SPARK’s comment letter dated February 6, 2004, (ii) the application of a sequence number to each set of instructions entered into a fund intermediary’s trade processing system, as described in the document attached to the memorandum to this file dated October 21, 2004, and (iii) the role independent third-parties would have under the alternative approach.<sup>1</sup> The alternative approach would allow fund intermediaries (such as broker-dealers and retirement plan administrators) to obtain same-day pricing for orders they receive by 4 p.m. and transmit to fund companies after 4 p.m. as long as the intermediary meets specific requirements, as described in the documents attached to the memorandum to this file dated August 19, 2004. Representatives discussed how the alternative approach, including the sequence number requirement, could be applied to all trading platforms.

Attachment

---

<sup>1</sup> Representatives of SPARK and Wachovia first discussed their alternative approach with staff members at a meeting on April 14, 2004, and first discussed the application of a sequence number at a meeting on October 20, 2004.



THE  
SPARK  
Institute, Inc.

# The SPARK Solution

---

March 9, 2005



THE  
SPARK  
Institute, Inc.

## Meeting Attendees

---

- Robert G. Wuelfing - Managing Director of the SPARK Institute, Inc.
- Larry H. Goldbrum - SVP, Wachovia Retirement Services & Chairman of the SPARK Solution Task Force
- Ann Bergin - Managing Director of The Depository Trust & Clearing Corporation (“DTCC”)
- Carol Jameson – Vice President and Senior Counsel, The Depository Trust & Clearing Corporation (“DTCC”)
- Trish Walsh - A VP, Government Relations for MassMutual Financial Group
- Roberta Ufford - The Groom Law Group



# Guiding Principles

---

- Any alternative must require more than superficial changes
- The status quo is not a viable alternative
- Third party involvement is essential (e.g., NSCC and third party time stamping)



## SPARK Solution Overview\*

---

- Provides real-time detection of potential trading irregularities
- Places detection information into the hands of third parties already regulated by the SEC (e.g., fund companies and transfer agents)
- Requires minimal additional regulatory oversight
- Facilitates auditing
- Readily available technology can be applied broadly
- Cost effective (implementation and ongoing operation)
- Scalable

\* See Appendix A for a more detailed summary



THE  
SPARK  
Institute, Inc.

---

## Progress Update

- Multiple meetings and conference calls with the NSCC/DTCC
- Retirement services industry proof of concept underway
- Brokerage industry proof of concept underway
- Detailed generic process flows developed
- Developed standardized industry TSN format
- Developed retirement plan industry Critical Trade Information formats for hashing
- Identified additional significant security enhancements during POC sessions
  - Secure generation of time stamp packets for delivery to trading agent
  - Secure generation of red flag reporting of irregularities



# Proof of Concept Update

---

## **Retirement plan service provider proof of concept**

- **Wachovia Retirement Services**
  - JAD sessions complete
  - Prepared generic process flows
  - Prepared critical trade information
  - Additional SPARK Solution enhancements identified
  - System development initiated



# Proof of Concept Update

---

## **Brokerage industry proof of concept**

- Charles Schwab
  - Initial technical meeting completed
  - Preliminary process flow chart completed
  - Next step: Detailed proof of concept planning meeting





THE  
SPARK  
Institute, Inc.

## Additional Information

---

- Compliance with the SPARK Solution is optional
- Industry utilization, acceptance and vendor selection will be market driven based on cost effectiveness
- Encourages trading efficiencies through automated electronic trade processing
  - Limits manual processes that create opportunities for abuse
- Enables same day exchanges for brokerage trading