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NEWS RELEASE

NATIONAL SECURITIES CLEARING CORPORATION (NSCC) CHOOSES TO WITHDRAW APPLICATION TO SEC

NSCC Nixes Bid for Regulate Managed Acct Hub

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Originally published by Thomas Coyle, Fund Fire

The National Securities Clearing Corporation (NSCC) has withdrawn its application to the Securities and Exchange Commission to operate a communication hub for the separately managed account (SMA) business. Far from thwarting the Money Management Institute's (MMI) effort to establish a hub for its data standards, however, the industry association says the withdrawal frees it to charge ahead with its plan to promote the hub — as an unregulated enterprise with the NSCC still firmly in the driver's seat.

"I can confirm that we have withdrawn the file ruling, but we have no further comment," says NSCC spokeswoman Karen Gregory. The NSCC is a self-regulatory organization, like the national security and commodity exchanges. It provides clearance, settlement and information services for broker-to-broker trades and money-settlement services for mutual fund transactions.

The Washington, D.C.-based MMI's executive director Chris Davis says the news took him by surprise. "This was a business decision by the [NSCC], and they didn't telegraph it to us. My initial reaction was 'Why didn't you tell us seven months ago?'"

As Davis tells it, the MMI was set to let the NSCC run the hub 18 months ago. But then the NSCC decided to seek approval from the SEC — something Davis says it was not specifically required to do. "By going that route they wasted 18 months."

The MMI still wants the NSCC to operate the hub, however. "The NSCC is still the cop on the beat," says Davis. In other words the NSCC will function as a gatekeeper for the standards. "The fact of the application withdrawal means this will no longer be bottled up inside the SEC," says Davis.

A spokesman for the SEC says the NSCC's decision to withdraw its application to run the SMA hub wasn't a response to an SEC ruling on the matter. The regulator also says the application was withdrawn without prejudice — meaning the NSCC is free to apply again. "If they came back to us again, the clock would start over," says the spokesman.

Few in the SMA industry oppose the notion of common data standards. As it stands dozens of separate communication channels may have to be accessed using different data protocols to process a single SMA transaction. The MMI standards purport to streamline that process by mandating that data appear in an agreed sequence, coached in common terms. With everyone using identical data forms and identical terminology, the process of communicating through multiple channels is made simpler.

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But some in the business question the MMI's selection of the NSCC to run the communication hub. They would have preferred that the industry association put "open" standards in play, so that competing vendors could vie with one another for the business of connecting vendors while adhering to the standards. For them, Davis' "cop on the beat" analogy is invalid. Matt Schott, a senior analyst with Needham, Mass.-based research consultancy Tower Group and author of the report MMI and NSCC: The Pursuit of Standards in Managed Accounts, says that other industries maintain open data standards by enforcing rigorous testing procedures.

Before hearing of the MMI's intention to forge on regardless, Jamie Waller of Summit, N.J.-based SMA Network thought the NSCC's withdrawal of its application might "force the industry to get serious about collaborating on the standards in a non-partisan basis." Waller left Jersey City, N.J.-based connectivity provider CheckFree Investment Services— an opponent of the NSCC's role in the SMA hub as described in its SEC application — about a week ago. (See article on Waller's departure in today's FUNDfire.)

CheckFree couldn't be reached for comment.

Dan Seivert of 3C Financial Partners, a Los Angeles-based investment bank and consulting firm, says his first reaction to the news of the NSCC's withdrawal was to suppose that the next iteration of the SMA hub would have more open market and free enterprise aspects to it that might be more beneficial to the many stakeholders involved. He enumerates those stakeholders as managers, sponsors, technology providers, financial advisors, and investors. Seivert adds that the NSCC's withdrawal, puts the MMI squarely at the center of the debate with the responsibility of determining the fairest and most attractive solution for all stakeholders.

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ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

Daniel Seivert
Managing Director
dseivert@echelon-group.com

Tyler Resh
Principal
tresh@echelon-group.com