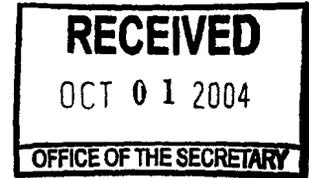


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MEMORANDUM



To: Files

From: Hester Peirce

Re: Proposed Rule: Amendments to Rules Governing Pricing of Mutual Fund Shares,
File No. S7-27-03

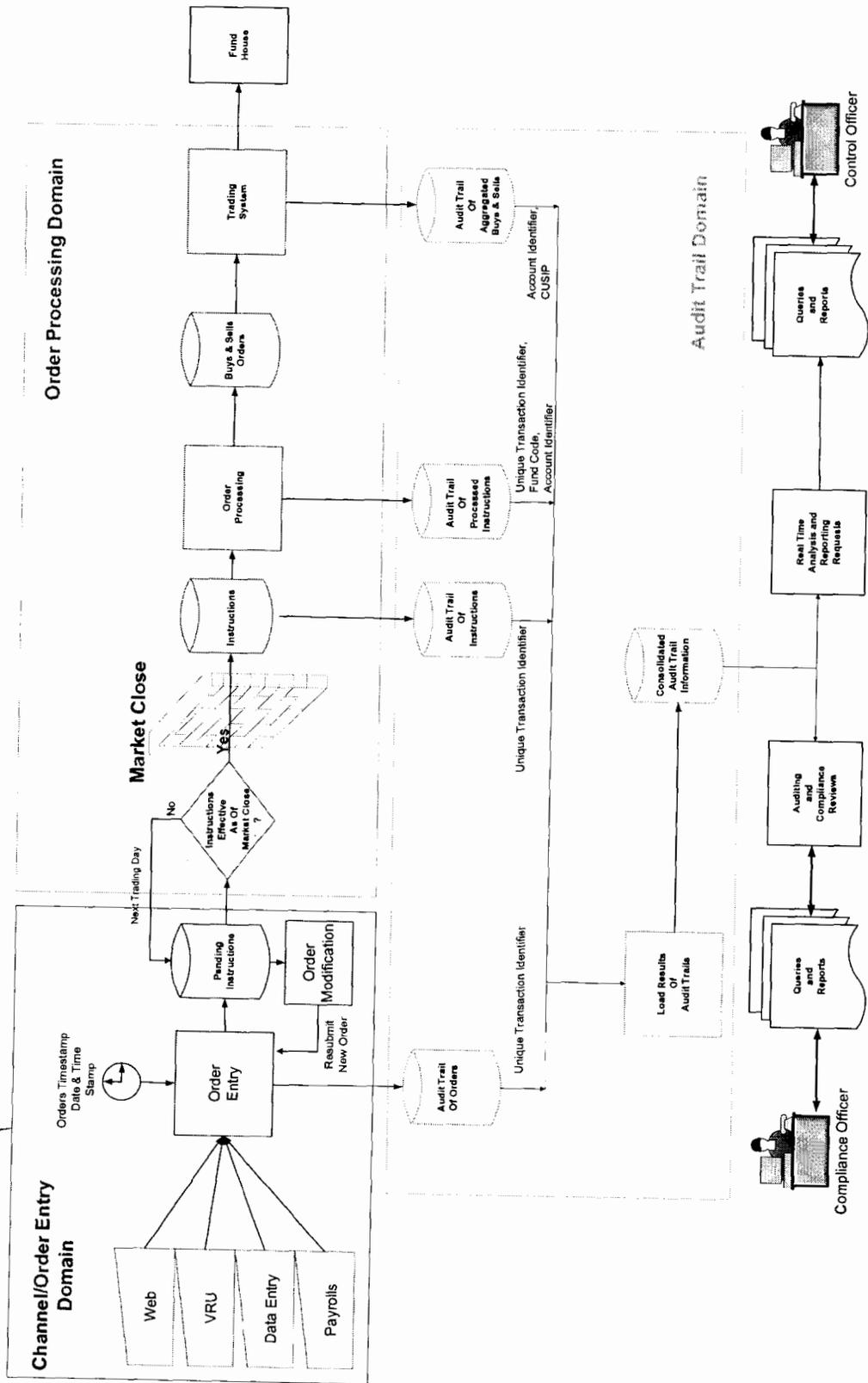
Date: September 30, 2004

On September 15, 2004, representatives of the American Benefits Council, Charles Schwab & Co., Inc., Mass Mutual Financial Group, Manulife Financial, Hewitt Associates LLC, Automatic Data Processing, Inc., the Profit Sharing/401k Council of America, and Nationwide Insurance and Financial Services, Inc. met with Commissioner Atkins and Hester Peirce, counsel to the Commissioner. They discussed the "Smart 4" alternative to the Commission's Late Trading Proposal. This alternative is described in the attached handouts, which were distributed at the meeting.

Attachments

Smart 4 Processing Flow And Audit Trails

NIST Atomic Clock



THE SMART 4 SOLUTION OVERVIEW

September 15,2004

1. SMART 4 implementation will require a significant, costly, and time-consuming investment by intermediaries. It is not an attempt to maintain status quo for intermediaries.
2. SMART 4 is a comprehensive solution that can be implemented by intermediaries serving both the employer provided retirement plan and individual investor environment.
3. SMART 4 will prevent late trading abuse during the after-hours processing of mutual fund trading instructions to the highest degree available under current commercially available technology.
4. An absolutely unalterable electronic audit trail from receipt of order instruction to placement of a trade, retained for three years, will record any effort to circumvent the system's integrity. This feature alone will be a tremendous deterrent to any misbehavior.
5. All trade instructions will be electronically time-stamped with an unalterable clock. Only instructions received prior to a fund's closing time will be afforded same-day pricing.
6. Intermediaries will assume the financial risk for any orders that cannot be entered into the order system before market close.
7. No orders can be entered or altered after Market Close. Even simple keystroke mistakes cannot be corrected if they are not discovered until after Market Close. Only in the extremely rare circumstance that a "bad record" causes a system issue can changes be made, and then only in the most highly controlled conditions. Intelligent editing capability requirements at the input level will minimize bad records by insuring that instructions are in good order.
8. A designated authorized control officer will be responsible for monitoring controls and processing.
9. A senior executive and a designated compliance officer must annually certify the authenticity of the trades placed by the intermediary, that the firm's Smart 4 systems are in place and working properly, and that any discovered breaches were reported to the SEC and the affected fund.
10. A certified intermediary that accepts orders from an uncertified intermediary is responsible for the veracity and authenticity of those orders, and accepts liability for any illegal late trades executed by the uncertified intermediary.
11. Banks would comply with SMART 4 subject to inspection and enforcement by Federal banking regulators, similar to how they are regulated as transfer agents.
12. All certified intermediaries will be subject to expanded audit requirements. The auditor will report any deficiencies not corrected by the intermediary to the SEC.