We mutual fund holders are afraid to buy more funds until the "late trade" problem is taken care of.

It seems absurd that a government agency has not acted on this problem yet, especially as the U.S. Postal Office has an electronic solution.

Everyone trusts the U.S. Postal Office and they should be put in charge of it — NOT anyone or institution connected with the mutual fund industry.

Copy of an article from The Boston Globe discussing the matter which they sent us last week as we requested. Let's get on it as we begin to deal with it.
USPS wants to deliver fairness to mutual funds
Electronic postmark vies with other plans
By Andrew Caffrey, Globe Staff | May 17, 2004

The government agency that brings you snail mail wants to stop lightning-fast traders from ripping off mutual funds.

The US Postal Service says its fancy new technology can clean up the greatest scandal to ever hit the mutual fund industry, in which unscrupulous investors sneak late trades into funds after prices are set each day at 4 p.m.

The agency has created an electronic postmark that will stamp the time and date on a document. Investors and mutual fund companies could then use the information to verify that a trade was made before the 4 p.m. cutoff for that day's prices. More important, the technology offers elaborate security provisions that the Postal Service says would detect any effort to manipulate or tamper with a mutual fund trade.

The system offers independent verification of the validity of a document from a government agency with a long track record of delivering mail and executing financial transactions. Plus, it has the power of federal law behind it, since it is a crime to tamper with documents in its system.

"We're a disinterested third party," said Chuck Chamberlain, who runs the electronic postmark project for the USPS. "There's nobody to bribe in this system. No single person has access to the system whereby they could manufacture a transaction or alter one without being detected."

The Postal Service and its corporate partner, AuthentiDate Inc. of New York, are among vendors and financial firms pitching technology solutions to federal securities regulators who are weighing new rules to prevent late trading and other mutual fund abuses.

At the other end of the spectrum from the Postal Service proposal is a solution being pushed by Fidelity Investments and other mutual fund players that would use simpler time-stamping technology and procedures, which they say would end the trading abuses at less cost.

Either way, industry officials say that technology is the key to battling human corruption. "I truly believe this industry can use technology to solve this problem," said Chip Veneiff, who runs the investment management practice at PricewaterhouseCoopers.

"If you take away the human element" from processing trades, "it becomes much more difficult to do something inappropriate," he said. "You're never going to get rid of bad apples, but you can make it a heck of a lot harder for them to get away with it."

Late trading is an illegal practice in which investors take advantage of that day's market movements to submit trades after the daily close of trading but still get the price mutual funds set at 4 o'clock. Attorney General Eliot Spitzer of New York has likened late trading to betting on a horse race after the finish.

Regulators said unscrupulous traders exploited weaknesses in the current system that allow brokers and other financial intermediaries to ship that day's batch of orders to mutual fund companies hours after the 4 p.m. cutoff and yet still receive the fund price set earlier. Fund companies say they trusted financial intermediaries to vouch that each order from a customer was placed before 4 p.m., but government investigations showed that some investors, often with the help of a company insider, hid their late trades in the huge batches of orders that are bundled at the end of the day. Continued...
Page 2 of 3 -- To fix this, the Securities and Exchange Commission has proposed that all mutual fund trades must reach their end destination — either the fund company or its trade-clearing agent — by 4 p.m. to receive that day’s price. The hard 4 o’clock close proposal, as it’s called, is highly contentious, with administrators and record-keepers of retirement plans saying that it would force investors to make trades much earlier in the day if they are to be processed in time to get the 4 p.m. price.

Sensing an opportunity, the Postal Service and AuthentiDate have been hawking the electronic postmark system to regulators and financial firms. Like many electronic time-stamping programs, the Postal Service time clock is based on the atomic clock maintained by the US government, which eliminates the opportunity for corrupt insiders at financial firms to manipulate the time on internal computer systems to make it appear that a late trade was made before 4 p.m.

Once the program is installed, users activate the postmarking program by clicking the blue icon of the Postal Service eagle mascot. The Postal Service’s software imprints digital signatures and electronic postmarks, which look much like current paper postmarks, on documents prepared in Microsoft Word. The postmark also seals the document by creating a unique coded record of the specific contents of each individual document using computer algorithms. Proponents have likened this “hash code,” as it’s called, to an electronic fingerprint or DNA code in which, just as in biology, no two are alike and each represents a unique set of facts in the documents.

The Postal Service stores the hash code in its secure data centers. Recipients of the document, in this case mutual fund companies receiving a trade, would then use the postmarking software to verify with AuthentiDate that the contents match the hash code.

"If anyone tried to change the document, it would compute a different hash code, and later, when you did an audit or check, it would not match the original code, and that would indicate it was changed or tampered with," said Michael Wolf, chief technology officer of AuthentiDate.

Right now, the state of Indiana uses the system to send electronic copies of motor vehicle records to local courts. The Postal Service is also trying to sell the system to companies that, for example, file forms and other documents with government agencies and courts. In the private sector, job applicants or vendors could receive job offers in an electronic job format that has been signed and sealed with an electronic postmark.

Other vendors are pitching solutions that use computer algorithms to time-stamp and secure documents. Surety Inc., a Herndon, Va., firm, has what it calls a "widely witnessed" model, in which it publishes a snapshot of its hash codes every week in the commercial announcements section of The New York Times. The purpose is to eliminate the potential for collusion between Surety and a customer to manipulate stored data, since outsiders could use the published code to verify the contents of stored documents without having to trust Surety that the contents are safe.

"We prove that an electronic record existed at a specific point in time and hasn’t been changed since, and we take trust out of the equation to independently verify this," said Surety chief executive Tom Klaff.

These technologies are not now widely used, and many firms in the financial industry are reluctant to embrace them. "It’s overkill," said Janice Morris-Hatch, senior vice president of the Fidelity Investments Operations Group. While admitting that the Postal Service-AuthentiDate approach is interesting, Morris-Hatch said it would require a "significant technological change" by financial firms to use it.

But Chamberlain, the Postal Service product manager, said that since the mutual fund industry is "suffering from a lack of trust right now, a little bit of overkill isn’t too bad."