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**Report of the  
Customer Account Transfer  
Task Force**

# Report of the Customer Account Transfer Task Force

The fast and efficient transfer of customer accounts is of critical importance to both the industry and investors. Investors have the right to decide the best business location for meeting their investment services needs, and both they and the industry as a whole suffer when that right is impeded for any reason.

In response to numerous customer complaints and industry frustration about delays in the transfer of securities accounts from one brokerage firm to another, NASD established the Customer Account Transfer Task Force (Task Force) to consider ways to improve the process of inter-firm customer account transfers. This Report presents the results of the Task Force's deliberations.

## Background

### The Account Transfer Process

Most transfers of customer accounts from one brokerage firm (the "carrying firm") to another (the "receiving firm") occur through the Automated Customer Account Transfer Service (ACATS), an electronic transfer system developed by the National Securities Clearing Corporation (NSCC) to automate and standardize the transfer of accounts.<sup>1</sup> When it is not possible to use ACATS, either because the assets in the account are not transferable through ACATS, or because one or both of the parties to the transfer do not participate in ACATS, customer account transfers are handled manually. Manual transfers follow similar procedures, but can take longer than those occurring electronically.

In either case, a customer account transfer begins when a customer completes and submits a Transfer Initiation Form (TIF) to the receiving firm. If the transfer is via ACATS, the receiving firm electronically enters specified data from the TIF, including the customer's name, social security number and account number, into ACATS. If the submitted data meets ACATS minimum requirements, then the ACATS system electronically informs the carrying firm of the transfer instruction. If the data submitted does not meet ACATS's minimum requirements, the system automatically rejects the transfer instruction.<sup>2</sup> Upon receiving a transfer instruction via ACATS, the carrying firm must either validate or take exception to the instruction within three business days.

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1 NSCC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation (DTCC).

2 NSCC determines the data necessary to initiate the transfer process. The critical data on the TIF includes the names of the receiving and carrying firms, the account numbers at both firms, the account type and title, and the customer's social security number or tax identification number.

### Validating a Transfer Instruction

Except in limited circumstances, the carrying firm must validate a transfer instruction to the receiving firm, which is done by validating and returning the transfer instruction to the receiving firm, along with a list of all securities positions and money balances that are subject to the transfer request, as shown on the carrying firm's books. At the same time, the carrying firm must freeze the account until the transfer is complete; all open orders, with the exception of option positions that expire within seven business days, must be cancelled, and no new orders may be taken by the carrying firm. (If the transfer instruction applies only to certain assets in the account, only trading in the affected assets would be frozen.)

The purpose of sending a list of transferable assets in an account to the receiving firm before transferring the account is to give the receiving firm the opportunity to review and accept or reject the account before the transfer occurs, eliminating the need to transfer assets back to the carrying firm in the event that the receiving firm is unable or unwilling to carry them. For example, the account might not meet the firm's credit policies or minimum equity requirements. The receiving firm may also not be able to carry certain assets, such as third party money market funds, because it does not maintain the necessary relationship or arrangement with appropriate third parties. In that case, the receiving firm must contact the customer and request instructions regarding the disposition of those assets. The customer may instruct the receiving firm to liquidate the asset, continue to retain the asset at the carrying firm, transfer the asset in the customer's name to the customer, or transfer the asset to the third party that is the original source of the product.

### Taking Exception to a Transfer Instruction

In certain limited circumstances, a carrying firm may take exception to a transfer instruction. Specifically, NASD Rule 11870 provides that a carrying firm may take exception to a transfer instruction only if:

- Additional documentation is required (additional legal documents such as a death or marriage certificate is needed);
- The account reflects no transferable assets;
- The account number is invalid;
- The instruction is a duplicate request;
- The transfer would violate a firm's credit policy;
- There are unrecognized residual credit assets (the receiving firm cannot identify the client as the record owner of one or more credit assets);<sup>3</sup>
- The client rescinds the instruction (the client submits a written request to cancel the transfer);

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3 For example, after a transfer is completed, credits, such as stock or cash dividends, may accumulate. If the carrying firm sends the credits to the receiving firm without the proper account identification (e.g., the wrong account number), the receiving firm may not be able to identify the account to which they belong.

- There is a mismatch of social security or tax identification numbers or of account title or type;
- There is missing or improper authorization (e.g., the TIF requires an additional client authorization or successor custodian's acceptance authorization or custodial approval); or
- The customer has already taken possession or the assets in question are already in transfer.

If the carrying firm takes exception to the instruction, NASD Rule 11870 requires the carrying firm and the receiving firm to work together to “promptly resolve” the issue. This may require the customer or the receiving firm to supply corrected or additional information. If the carrying firm takes exception because it deems some or all of the assets in the account to be nontransferable, it must identify those assets to the customer in writing and request instructions from the customer with respect to the disposition of such assets.<sup>4</sup> The customer may ask the carrying firm to liquidate the assets, keep them, or transfer them directly to the customer.

### Settlement and Delivery

Once the instruction has been validated and any exceptions have been resolved, the delivery of the account from the carrying firm to the receiving firm must occur within three business days. (If there is a dispute or exception regarding some but not all assets, the transfer of assets not at issue must be completed within that time frame.) On the date of settlement, NSCC automatically debits the carrying firm with the value of the assets being transferred through ACATS and credits the receiving broker with the same amount.

### **The Customer Account Transfer Task Force**

ACATS was developed to avoid the delay and risk associated with the physical delivery and transfer of securities accounts and instructions, and in most cases, it does. More than 17,000 full accounts or partial accounts are transferred via ACATS each day. Assuming that there are no problems with the transfer process, an ACATS transfer should generally take about six to 10 business days.

Nonetheless, the level of customer dissatisfaction with the customer account transfer process is high. In the past two years, more than 700 customers submitted complaints to NASD about the transfer of their accounts. In the same period, firms received more than 6,000 direct customer complaints about account transfers.<sup>5</sup>

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4 Reasons an asset may be non-transferable include: regulatory limitations on the scope of the receiving firm's business; the asset is a bankrupt issue for which the carrying firm does not possess the proper denominations to effect delivery and no transfer agent is available to re-register the shares; the asset is an issue for which the proper denominations cannot be obtained pursuant to governmental regulation or the issuance terms of the product (e.g., foreign securities, baby bonds, etc.); or the asset is not by its terms portable for transfer.

5 Approximately 300 customers submitted complaints to NASD in 2004; 430 customers did so in 2005. In 2004, firms reported 3,124 customer complaints to NASD and the New York Stock Exchange, Inc. (NYSE) about the transfer of their accounts. That number rose to 3,584 in 2005.

While there may be legitimate reasons why some transfers take longer than others, including the fact that some transfers cannot occur via ACATS, customers have the right to move their accounts freely, and should generally be able to expect that to happen quickly and efficiently.

In response to the high number of customer complaints, NASD convened the Task Force in the fall of 2005 to identify the reasons so many customers are experiencing delays, and to recommend possible ways to improve the account transfer process. The Task Force is composed of operations and ACATS experts from various sectors of the brokerage industry—large clearing firms, regional clearing firms, self-clearing firms, and introducing firms—to ensure input from firms with different business models. NASD, DTCC and the NYSE also are represented on the Task Force. In addition, a representative of the Securities Industry Association (SIA) and the Division of Market Regulation of the Securities and Exchange Commission (SEC) participated in the Task Force as observers.

## **Task Force Findings and Recommendations**

### **Failing to Expedite the Transfer Process as Required by Self-Regulatory Organization (SRO) Rules**

The Task Force members generally agreed that the most significant cause of delay in the account transfer process is the failure of some firms to expedite the account transfer process as required by SRO rules. For example, NASD Rule 11870 requires both the carrying and receiving firms to “expedite and coordinate activities with respect to” a transfer and requires both the carrying and receiving firm to “promptly resolve” any exceptions taken. But members of the Task Force reported that some firms may not be fully meeting this standard.

Task Force members observed that this lack of cooperation is manifested in various ways. For example, some firms apparently overuse what are known as “hard reject” codes. When taking exception to a transfer instruction, ACATS prompts users to code the exception as either a “24-hour soft reject,” meaning that the transfer instruction remains active pending correction of deficient information within 24 hours, or a “hard reject,” meaning that the instruction is cancelled outright, and must be resubmitted for the transfer to occur. A 24-hour soft reject that is not corrected within that time automatically becomes a hard reject, or cancellation.

Hard reject codes should only be used when the transfer instruction defect cannot be cured, even with additional or corrected information. For example, a hard reject code might be appropriate when the customer has cancelled the instruction. However, several Task Force members expressed concern that some firms are automatically using a hard reject code even for deficiencies that could be cured within 24 hours, such as typographical errors. Moreover, even when soft reject codes are used, data often goes uncorrected within the time allotted. Available data supports these observations. The hard reject rate for transfer instructions submitted through ACATS is currently between 11% and 13%, and 80% of soft rejects are not corrected in time to avoid cancellations. These statistics, along with some Task Force members’ anecdotal experience, suggest both that carrying firms are overusing hard reject codes, and receiving firms are not correcting deficiencies promptly, as required by Rule 11870.

Another area of concern is the practice among some firms of requiring a paper copy of a TIF before executing a transfer instruction. Participants in ACATS are required to execute the TIF Immobilization Program Agreement (Agreement), which specifies the rights, liabilities and remedies of all ACATS participants. The purpose of requiring firms to execute the Agreement was to eliminate the need for firms to require hard copies of customer signatures to verify the authenticity of a transfer request. Under the Agreement, each carrying firm agrees to recognize any electronic ACATS transmission initiated by any receiving firm as presumptive evidence of the receiving firm's authority to receive the account or assets in question. In exchange, the receiving firm agrees to indemnify and hold harmless the carrying firm for any claims or losses it incurs as a result of complying with what turns out to be an unauthorized or illegitimate TIF.

The Agreement also requires receiving firms to maintain the original TIF for six years and to provide a copy to the carrying firm "on request." However, the Agreement also states that while nothing in the Agreement restricts a carrying firm from communicating with the customer, to verify the transfer request or any other reason, such communication may not delay the carrying firm's transfer of the customer's account. Nonetheless, some Task Force members reported that carrying firms may sometimes request a paper copy of the TIF in order to delay the transfer process, particularly when a registered representative has left the carrying firm for the receiving firm. Such purposeful delays are explicitly prohibited under NASD rules.<sup>6</sup>

To address these and other practices that delay the transfer process, the Task Force recommends that NASD remind firms in a Notice to Members of their obligations under NASD Rule 11870 to cooperate and expedite the transfer of customer accounts through ACATS, and that NASD communicate to firms how seriously NASD views these obligations.<sup>7</sup> Among other things, the Notice should state that:

- failing to use soft reject codes, and to cure them within 24 hours, whenever it is possible to do so, may be a violation of NASD rules, and that the fact that a firm's operational system is not equipped to generate soft reject codes is not a satisfactory justification for failing to adhere to its obligation to comply expeditiously with customer instructions and promptly resolve any exceptions; and
- delaying execution of an otherwise properly submitted transfer instruction by asking for a paper copy of the TIF when there is no legitimate reason to do so, such as to delay the transfer process, may constitute a violation of NASD rules.

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6 NASD Interpretive Material 2110-7 states that it is inconsistent with just and equitable principles of trade for a member or person associated with a member to interfere with a customer's request to transfer his or her account in connection with the change in employment of the customer's registered representative (provided that the account is not subject to any claims). See also NASD Rule 11870, which as noted above, requires firms to "expedite and coordinate activities with respect to" a transfer.

7 This Report focuses on NASD rules; however, to the extent the Task Force's recommendations are applicable to the rules of other SROs, including NYSE Rule 412, those SROs should consider pursuing similar rulemaking and/or interpretive guidance.

## Mismatched Account Numbers

Task Force members observed that one of the most common reasons for taking exception to a transfer instruction is that the account number submitted by the receiving firm (which is typically supplied by the customer from the customer's account statements) does not match the account number maintained by the carrying firm. This may be due to something as simple as a typographical error, which should be easily corrected by the receiving firm or customer. However, it is sometimes due to the fact that the account numbers used by the carrying firm for customer account statements are not the same numbers used by the carrying firm for ACATS purposes.<sup>8</sup>

In such cases, the Task Force agreed that the burden of providing the proper account number should be on the carrying firm, not on the customer. NASD Rule 11870(d)(3) requires the carrying firm to track changed account numbers if the firm has internally reassigned the account to another broker or account executive. The rule does not, however, address situations in which the carrying firm's internal account numbers do not match those provided to the customer on customer account statements for any other reason, such as a change in clearance and settlement platforms, a merger, or other back office reorganization. Over the past several years, this problem has been exacerbated by the numerous mergers and consolidations that have taken place in the financial services industry.

To address this issue, the Task Force recommends that NASD amend NASD Rule 11870(d)(3) to prohibit carrying firms from taking exception to a transfer instruction on the basis of mismatched account numbers if the firm is responsible for renumbering the account for *any internal purpose*, including a merger or a change in clearing firms. The Task Force further recommends that NASD consider amending the rule to require firms to use the same account numbers on account statements as those used by the firm for ACATS purposes. NASD should also consider making account statements more "user-friendly" for customers desiring to transfer particular assets, e.g., requiring CUSIP numbers or other identifiers (where available) that will make securities more easily identifiable.

The Task Force also recommends that, while rulemaking is pursued, firms should voluntarily develop and implement procedures for cross-referencing account numbers and tracking changed account numbers in all cases in which they bear responsibility for the change. Finally, the Task Force recommends that the industry and DTCC consider creating a database of each member's valid account number format that would be maintained by DTCC, so that minor discrepancies such as typographical errors could be caught and corrected at the earliest possible stage of the transfer process.

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8 For example, the account number on the customer's account statement may contain additional digits that are used by the firm as supplemental identifiers, but that are not part of the actual account number. Use of such a number in a transfer request would result in an ACAT rejection.

## TIF Standardization

Although receiving firms must submit certain specified data into the ACATS system, the data they submit is based on information provided by the customer on the firm's TIF. The fact that some firms may have their own version of the TIF may, according to Task Force members, increase the likelihood of mismatching account numbers and other errors. This possibility is even greater in the case of manual transfers, which are based solely on the TIF, and not subjected to even the degree of standardization imposed by ACATS.

Therefore, the Task Force recommends that the SROs work with industry to consider the utility of developing a standardized TIF for both ACATS and non-ACATS transfers. A standardized TIF would include minimum match criteria—for example, social security number, account number and account type—that would be sufficient to allow a transfer to go forward, even if other information currently required by ACATS contained typographical or other errors.

NASD has also committed to working with industry to consider the feasibility of developing standardized TIF instructions that would enable customers to instruct the delivering firm to deliver the underlying stock positions in WRAP accounts (as permitted by the specific WRAP agreement). Customers also could use the standardized TIF to instruct the carrying firm to liquidate WRAP accounts.

The Task Force noted that a large percentage of rejects concern paperwork requirements in the context of legal changes to an account (e.g., paperwork required changing the form of an account from jointly to singly-owned). Industry representatives questioned whether the TIF could be amended to indicate what, if any, documentation the receiving firm has received from the customer authorizing such a change, and whether firms could rely on such information in lieu of examining the paper authorization. The Task Force recommends that SROs support ongoing industry efforts to determine the feasibility of such an approach.<sup>9</sup>

## Other Changes to the Transfer Process

The Task Force also discussed certain technical changes that might improve the account transfer process. For example, the Task Force noted that partial transfers, *i.e.*, the transfer of specific assets within an account, are often completed much more expeditiously than full transfers. The Task Force recommends that the SROs support the efforts of DTCC and the SIA's Customer Account Transfer Division, which are recommending decreasing the time that the carrying firm has to validate or take exception to a transfer instruction from three business days to one, and eliminating the second to the last day of the full transfer cycle (referred to as the "Set-PREP" day), which is not currently part of the ACATS cycle for partial transfers. (Such a change would require amending Rule 11870.)

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9 The SIA's Customer Account Transfer Division is currently working on these issues.



The Task Force also noted certain problems in transferring collateralized loans, where the loan to the customer (from a bank that is a subsidiary of the broker-dealer) and the collateral for the loan are in different accounts. A carrying firm may reject an ACATS transfer instruction if the assets in an account are pledged to the firm or a bank as collateral for a loan. Ideally, according to Task Force members, the loan and the collateral should move together—the collateral to the receiving firm and the loan to a subsidiary bank. However, an industry-wide process to facilitate this type of transfer does not exist and the lack of such a process can result in ACATS rejects. The Task Force recommends that the SROs, working together with industry and DTCC, develop guidelines for standardizing the transfer of loans and collateral.

Task Force members also suggested that a standardized “liquidate/transfer process” (*i.e.*, sell the securities in the account and transfer the proceeds) which currently does not exist, might eliminate delays in processing, reduce client confusion, and allow customers who choose to liquidate assets to process that transaction via their new firm. SROs should support industry efforts to determine the feasibility of including instructions on the TIF to liquidate non-portable assets through ACATS. (The underlying issue of portability is discussed more fully below.)<sup>10</sup>

### **Investor Confusion About the Transfer Process**

The Task Force members expressed concern that customer confusion and misinformation about the account transfer process may contribute to the high level of customer dissatisfaction with the process. Because many securities transactions occur almost instantly, some investors may believe that account transfers between brokerage firms should happen just as quickly. But, even a problem-free ACATS transfer now typically takes between six and 10 business days.

The Task Force recommends that firms take more proactive measures to educate their customers about the transfer process, both to help customers manage expectations about how long the process should take and to minimize errors and uncertainties that can contribute to delay. Among other things, the Task Force recommends that when a customer inquires about transferring an account, the receiving firm should explain the transfer process, stress the importance of providing the correct information on the TIF, and ask about the nature of the assets the customer wishes to transfer to determine whether any specific policies or constraints might impact the transfer of the account. For example, if the customer has a margin account, the firm should inform the customer in advance whether it will accept the margin account and, if so, what its minimum requirements are.

The Task Force also recommends that firms help investors understand the anticipated length of the transfer process given the specific type of account and the assets held. For example, firms should explain that the transfer of a retirement or custodial account will typically take longer than other types of accounts, and the transfer of ACATS-eligible securities will generally be faster than the transfer of non-ACATS-eligible securities such as limited partnership interests. Firms should also point out that an account may be frozen during the transfer process so customers can plan accordingly.

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10 As discussed in more detail below, the Task Force believes that when possible, customers should be given the opportunity to transfer the securities held at the carrying firm. The recommendation to develop a standardized “liquidate/transfer” process is intended to streamline the transfer process when transferring the securities is not an option or the customer’s preference.

The Task Force suggested that NASD develop a brief document to help educate customers about the account transfer process that could be delivered at the time an account transfer is requested. In addition, both the SEC and NASD Web sites provide investor-friendly information about the transfer process that the Task Force encourages firms to use as a resource. The Task Force also expressed concern that many investors may not understand product-specific portability limitations that can be imposed and the effect of those limitations on investor choice in moving their account from one firm to another. As noted below, the Task Force urges regulators and the industry to consider ways to enhance investor understanding of portability restrictions.

### **Expanding ACATS Participation**

Finally, the Task Force noted that the customer account transfer process can be significantly delayed if one or more of the parties to the transfer does not participate in ACATS. For example, eligible mutual funds can be transferred via ACATS between broker-dealers, but ACATS cannot accommodate the transfer of directly-held fund shares from a mutual fund complex to a broker-dealer. Additionally, although banks can voluntarily participate in ACATS, they are not required to do so. Given the increasing balkanization of the financial services industry, and the risks and delays associated with manual transfers, Task Force members recommend that DTCC and the SROs work with the industry to explore ways to expand participation in ACATS to include a wider range of industry participants, either on a mandatory or voluntary basis.

The Task Force recognizes that this recommendation does not address the fact that, while a wide range of assets can be transferred through ACATS, including equities, corporate and municipal bonds, unit investment trusts, mutual funds, options, cash and certain other investment products, some asset classes, such as limited partnerships, that require re-registration or have other unique characteristics, must be transferred manually.

The Task Force also recognizes that some assets, such as certain proprietary products, cannot be transferred at all, or can only be transferred to certain firms with which the manufacturer of the product maintains a selling agreement. The portability of mutual funds and other proprietary products is a function of the product, rather than the account transfer process, and is therefore technically outside the scope of the Task Force's mandate. Nonetheless, the Task Force noted that customers often do not become aware of portability restrictions until they try to transfer a product, and therefore portability restrictions can be viewed by customers as a source of dissatisfaction with the transfer process. Therefore, the Task Force recommends that the industry work toward minimizing portability restrictions when designing and offering new products. And, as noted above, the Task Force urges regulators and the industry to consider ways to enhance investor understanding of portability restrictions.

## Implementation of Recommendations

To implement the Task Force's recommendations, NASD will:

- Publish a Notice to Members regarding firms' obligations to cooperate in the transfer process and to promptly resolve exceptions. The Notice will address, among other things, the use of soft and hard reject codes, and the practice of requiring a paper copy of a TIF before executing a transfer.
- Consider rulemaking to prohibit carrying firms from taking exception to a transfer instruction on the basis of mismatched account numbers if the firm is responsible for renumbering the account for *any internal purpose*, including a merger or a change in clearing or settlement firms, and to require firms to use the same account numbers on account statements as those used by the firm for ACATS purposes.
- Examine ways to enhance investor education about the customer account transfer process.

NASD has already met with representatives of the SIA's Customer Account Transfer Division, DTCC and NYSE, and has committed to work with these industry representatives and regulators to follow up on the Task Force's recommendations. Among other things, this working group will:

- Work to reduce the time involved in the ACATS process.
- Work to reduce delays caused by paperwork requirements associated with legal changes to accounts.
- Develop specific recommendations for expanding participation in ACATS.
- Identify voluntary measures the industry can take to track account numbers, including the possibility of creating a database of account numbers that would be maintained by DTCC.
- Consider developing a standardized TIF that includes minimum match criteria and recommending whether use of the new form should be voluntary or mandated by SRO rules.
- Consider ways to make account statements more "user-friendly" for customers desiring to transfer particular assets.
- Consider the feasibility of standardizing the process of transferring collateralized loans.
- Consider the feasibility of standardizing the "liquidate and transfer" process.
- Consider ways to minimize portability restrictions and enhance investor understanding of portability restrictions. Based on the recommendations of the working group, NASD will determine whether additional regulatory measures are appropriate.

## Conclusion

The Task Force believes that the ACATS process has greatly improved the customer account transfer process. However, the high level of customer dissatisfaction with the process demands that the industry and regulators take steps to minimize delay and improve the process. Therefore, it urges prompt adoption and implementation of the recommendations contained in this Report.

## ACATS Task Force

### Chairman:

**Mary L. Schapiro**  
*Chairman and CEO*  
NASD

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### Members:

**William C. Alsover, Jr.**  
*Chairman*  
Centennial Securities Company  
Grand Rapids, MI

**William Bridy**  
*President, FDS*  
Merrill Lynch  
Jacksonville, FL

**Steven P. Callan**  
*Associate Director*  
Bear Stearns Securities Corp.  
Brooklyn, NY

**Noland Cheng**  
*Managing Director*  
Morgan Stanley  
New York, NY W.

**Bernadette Chichetti**  
*Senior Principal Associate*  
New York Stock Exchange  
New York, NY

**Thomas K. McCarthy**  
*Managing Director*  
The Depository Trust & Clearing Corporation  
New York, NY

**Ronald DeCicco**  
*Managing Director, Customer Processing Services*  
Pershing LLC  
Jersey City, NJ

**David J. Diffenauer**  
*Sr. Vice President – Operations*  
A.G. Edwards & Sons, Inc.  
St. Louis, MO

**Dennis Ferguson**  
*President*  
Sterne Agee Clearing  
Boca Raton, FL

**Maurisa Sommerfield**  
*Executive Vice President, Operations*  
The Charles Schwab Corporation  
San Francisco, CA

---

### Staff Liaison:

**Shirley H. Weiss**  
*Associate General Counsel*  
Regulatory Policy and Oversight  
NASD  
Washington, DC

**NASD**  
1735 K Street, NW  
Washington, DC 20006-1506

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