

Best Practices Review of

# Market Timing and Fair Value Pricing

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## THE ISSUES

Market Timing  
Late Trading  
Fair Valuation  
Best Practices

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## BARRINGTON PARTNERS RESEARCH

Barrington Partners sells system, technology and process research to most firms in the mutual fund industry in the US and Europe. We gather information from many firms on practices and technology issues. Our research comes directly from people implementing solutions.

The "Best Practices Review" consists of a review of an overview of the major issues surrounding market timing and fair value pricing, a discussion of what the solutions are to these issues from a fund accounting and transfer agent perspective, and identification and summary of the best practices. The best practices summary includes perspectives from the auditors, regulators and industry professionals (i.e. fund companies, NSCC, pricing vendors, third party service providers). These opinions are brought together in one comprehensive review to provide a unique outlook on the "market timing" problem.

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## BARRINGTON PARTNERS RESEARCH PROCESS

Review of the outline with the industry professionals to obtain feedback and input.

Conduct interviews with the senior executives from the fund companies, industry regulators, law firms, third party service providers, auditors and pricing vendors to understand and identify the solutions and best practices being implemented.

Review our research results and present our conclusions. By addressing aspects of our findings with select industry professionals, we are able to present strategic insights into the issues.

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## THE MARKET TIMING BEST PRACTICES REVIEW IS COMPRISED OF FIVE SECTIONS:

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### 1. Overview of the Issues

- Brief history of market timing, fair value pricing and stale prices
  - Definition and background of market timing, fair value pricing and stale prices
  - Discussion as to why these issues need to be addressed
- Legal perspective
  - Summarized overview of the current SEC legislation
  - Identification and summary of the proposed legislation by the SEC
  - The ICI position and opinion
  - Legal interpretations
- Audit Perspective
  - What are the current AICPA guidelines
  - What are the auditor interpretations

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## 2. Fund Accounting Solutions

- Pricing vendors — Summary of pricing models being offered by ITG, FT Interactive Data and Fair Value Research.
- In-house methods — Identification of the companies that have developed internal solutions

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## 3. Transfer Agent Solutions

- Monitoring shareholder trades and identifying market timers
  - Overview of the what the fund companies are mandating
  - Identification of how are they are monitoring these mandates
- Obligation to prevent market timing
  - Current guidelines published by the SEC and NASD
- Methods to prevent market timing
  - Identification of the methods
  - Discussion regarding fees and/or restrictions on market timers
- Obligation regarding “look-through” omnibus accounts
  - Identification of what the obligations are of Plan Sponsors and participant recordkeepers under ERISA
  - Identification of what the NASD taskforce recommendations are
  - Issues surrounding broker/dealer accounts
  - Review of Fund Supermarkets and NSCC issues

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#### 4. Best Practices

- Fund Companies: Fund Accounting
  - Identification of criteria for implementing fair value pricing
  - Definition of a significant event
  - Stale prices – how long before it's identified as stale
  - Listing of which fund companies have implemented fair value pricing
  - Identification of other methods being implemented to limit market timing
  
- Fund Companies: Transfer Agent
  - Identification of what the transfer agents are currently doing to prevent market timing
  - Summary of how the cost of market timers are being quantified
  - Short-term trading fees – do they work?
  - Redemption fees – do they work?
  - Restrictions on number of trades – does this work?
  
- Interviews
  - Obtain opinions on the current issues from the fund companies, NSCC, Auditors, attorneys, third party service providers and pricing vendors

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#### 5. Conclusions

- Summary of the issues, opinions and best practices

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**THE COST**                      \$1,000

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