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# DEFERRED COMPENSATION PLAN BOARD REPORT 06-11



Date: March 2, 2006

To: Board of Deferred Compensation Administration

From: Staff

Subject: Market Timing/Excessive Trading Procedures

Recommendation:

That the Board of Deferred Compensation Administration (a) instruct staff to communicate to Great-West that the Board has elected to, as an interim policy concerning Market Timing/Excessive Trading, restrict individual participants from making transfers to restricted funds identified by an affected fund company for as long as the applicable fund determines; and (b) refer study of this issue and development of a more comprehensive proposed Market Timing/Excessive Trading Policy to the Plan's Investments Committee, for later consideration by the Board.

Discussion:

Staff has received a communication from Great-West Retirement Services ("Great-West") regarding Market Timing and Excessive Trading Procedures. Great-West has added new functionality to its system to enable it to more strictly enforce market timing/excessive trading limitations that may be imposed by the various investment providers in the City's Plan. Great-West is requesting that the City's Plan provide specific instructions regarding its policies concerning market timing and excessive trading.

In its communication, Great-West has identified three options for immediate action:

- Restricting an affected Plan participant from making transfers to a restricted fund for as long as the investment provider mandates;
- Closing the fund to all new contributions;
- Removing the fund as an investment option from the City's Plan.

Great-West is requesting a response by April 30, 2006. Since an immediate response is required, in staff's view the first option is the least drastic alternative and staff recommends that the Board authorize staff to communicate the Board's election of that option as an interim policy.

However, staff believes that the issues surrounding market timing/excessive trading are complex and deserve more in-depth study and development of a comprehensive policy that will take into account not just the interests of fund companies in limiting excessive trading, but the interests of Plan participants and the City's interests as Plan Sponsor. "Market timing" and "excessive trading" have become subjective terms within the mutual fund industry. Currently the fund companies define these terms exclusively, define them differently depending on the fund company, and the Plan is not capable at this point of being able to articulate clearly to participants what kind of trading activity is permissible and which isn't. The Board may wish to establish its own policies surrounding these issues such that investment providers as well as participants are dealing with a common set of rules. These rules, in turn, should be clearly communicated to Plan participants.

As a result, staff recommends that more in-depth study of this issue and development of a more comprehensive Market Timing/Excessive Trading Policy be referred to the Plan's Investments Committee. Once the Committee has considered the item their findings can be returned to the Board for further review.

Submitted by: \_\_\_\_\_  
Steven Montagna

Approved by: \_\_\_\_\_  
Maryanne Keehn