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**CORRESPONDENCE MEMORANDUM**

DATE: April 24, 2006  
TO: Wisconsin Deferred Compensation Board  
FROM: Shelly Schueller, Director  
Wisconsin Deferred Compensation Program  
SUBJECT: Excessive Trading Policy Procedure Revision

This memo explains a proposed revision to the procedures used by the Wisconsin Deferred Compensation (WDC) Program administrator to implement the Board's excessive trading policy.

The revision prevents a participant identified as an excessive trader from making transfers to a fund via any method, including the Internet site, telephone voice response system, call center, facsimile or paper form, *for as long as the fund house determines is necessary*. This is a change from the current WDC procedure, which limits purchases of the mutual fund in question for a participant for a period of ninety (90) days.

Staff is recommending approval of this change, as it provides additional flexibility when addressing the problem of excessive trading without restricting a participant's ability to use the WDC Internet site and telephone voice response system for other purposes such as form requests, etc. Including this revision would also provide compatibility with the market timing prevention policies enforced by the WDC's recordkeeper, Great-West Retirement Services (Great-West). A copy of Great-West's revised "Market Timing Prevention Policies" is attached to this memo.

**Background**

In January 2003, the WDC Board approved an excessive trading policy, which states:

"Excessive trading or market timing in your Wisconsin Deferred Compensation (WDC) account disrupts management of investment options, increases expenses and negatively affects performance to the detriment of other investors. Many investment providers to the WDC have adopted underlying restrictions and limitations with respect to transfers into and withdrawals from their investment options."

"All participant and beneficiary accounts are subject to such restrictions or limitations. In the event that an investment provider identifies a participant or beneficiary account in violation, the Department shall direct the Plan Administrator to take the appropriate action to cause this practice to cease."

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| Reviewed and approved by Dave Stella, Deputy Secretary |       |
| _____  | _____ |
| Signature  | Date  |

| Board | Mtg Date   | Item # |
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### **Administrative Procedures**

The WDC excessive trading policy restricts participants to no more than four (4) exchanges per month. Procedures used with excessive traders to date have been limited to newsletter articles and a warning letter that excessive traders would be restricted to trading via paper forms sent via the U.S. mail. In the past, this letter has been sufficient; the excessive trading has ceased.

In November 2005, the Board authorized the following additional procedures as methods to restrict excessive traders in the event that WDC participants do not heed the warning letter and excessive trading continues:

- Restrict all purchases of the mutual fund in question for *all* WDC participants for a period of ninety (90) days following a purchase in the mutual fund (i.e. participants may trade out of a mutual fund, but upon a purchase transfer into the fund participants would be restricted from additional purchases in the mutual fund, except designated contributions, for the designated period of time); or
- Close the mutual fund(s) to *all* new monies, including contributions and transfers in, for all WDC participants; or
- Remove the mutual fund(s) as an investment option(s) for the WDC and convert all allocations in that mutual fund(s) to a new investment.

After notification by the Board, Great-West will implement the Board's preferred procedure.

### **Discussion**

There are two reasons for this recommended change.

- In February 2006, Great-West adopted revised excessive trading procedures that state that Great-West will now enforce trading restriction time frames as requested by the individual fund houses, instead of the previously stated ninety-day restriction on trading. Some fund houses have a ninety-day restriction, others are longer.
- The most common excessive trading restriction procedure used by plan sponsors has been to require participants to make transfers via a paper form that must be mailed through the U.S. mail system. Under Great-West, the WDC's recordkeeper, the current paper-only restriction has limited participants' ability to use the Internet site and telephone voice response system for other activities, such as form requests. Great-West has developed a new feature that can eliminate this problem.

### **Proposed Procedure Revision**

The proposed procedure would replace the procedure found in the first bullet of the administrative procedures listed above, and would, instead, read:

- Prevent a participant from making transfers to the restricted fund(s) via any method (including the Internet site, telephone voice response system, call center, facsimile or paper form) for as long as the applicable fund determines is necessary. Restricted individuals are permitted to make transfers from the restricted fund(s) to other available investment options. The restriction will automatically be removed in accordance with the time frames provided by the fund.

The proposed procedure revision would prevent a participant from making transfers to a restricted fund *via any method for as long as the fund house determines is necessary*. However, it would not restrict the participant's ability to use the Internet site and telephone voice response system for other purposes. Participants would be able to make transfers out of the restricted fund; however, they would not be permitted to make transfers into the restricted fund. A participant would still be able to transfer into and out of all unrestricted funds available through the WDC through normal methods.

**Recommendation**

Staff recommends that the excessive trading procedural change described above be adopted by the Board. Adopting this change will provide more flexibility to the Board when addressing market timing and excessive trading and will enable the enforcement of the WDC's excessive trading policy to match the market timing prevention options available through Great-West.

If this recommendation is adopted, staff will work with Great-West to include additional reminder information regarding excessive trading in the next quarterly newsletter and further describe the restrictions in the initial letter that is sent to participants suspected of excessive trading.

Attachments