

# 21st Century Stock Ownership: Eliminating Paper Certificates and Expanding Direct Registration

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WHITE PAPER

CERTAINTY | INGENUITY | ADVANTAGE

 **Computershare**

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## INTRODUCTION

Paper stock certificates are:

- › Costly, in terms of the costs of production and of replacing lost and stolen certificates, as well as in terms of time and expense of transporting and storing paper
- › Vulnerable to physical calamities such as terrorist attacks, acts of nature, etc.
- › A barrier to shorter equity trade settlement times

Most securities industry participants understand that participation in an electronic recordkeeping system offers several advantages:

- › Provides greater flexibility/timeliness of share administration and transfer than paper certificates
- › Eliminates administrative costs and risks with storing and moving paper certificates for all parties
- › Eliminates the risk of lost or stolen certificates and the insurance costs associated with replacement
- › Allows fast and secure electronic transactions between the investor and their agent, whether a transfer agent or a bank or broker
- › Paves the way for full dematerialization of the US securities environment

In the wake of Superstorm Sandy, there was a great deal of media discussion encouraging holders to eliminate their certificated holdings by depositing them with a bank or broker, to be placed in book entry through the Depository Trust Company's (DTC's) Fast Automated Securities Transfer (FAST) system, and thereafter holding them in "street name."

While we agree in principle that investors should not hold on to certificates, the advice to place shares in book entry with a bank or broker is unclear and incomplete on a number of points.

1. Depositing certificates with a bank or broker to be held in street name is not the only way for an investor to hold shares without having to retain a certificate. Assuming an issuer participates in the Direct Registration System (DRS), shareholders can also hold stock directly on the books of the issuer, through the issuer's transfer agent - which can be an excellent option for many investors.
2. The term "book entry" is used very loosely in discussions of shareholder recordkeeping, often as a general term for "electronic recordkeeping." However, with a bank or broker, book entry simply means that a record of an investor's shares is managed on a bank's or broker's systems, regardless of whether or not the certificate is completely eliminated. It is often used to indicate that an investor's shares are held by a broker in the broker's participant account at DTC. When shares are held in book entry through a transfer agent in DRS, certificates are always eliminated and the recordkeeping is fully electronic. The complete elimination of certificates is known in the securities industry as "dematerialization."
3. In fact, not all shares deposited with a bank or broker are eligible for DRS or FAST. For example, restricted securities are maintained in certificated form - either in the owner's possession or a bank's or broker's vault - until the restriction can be removed and the shares can be transferred or sold. Many banks and brokers in turn deposit these restricted securities (evidenced by share certificates) with DTC, which holds them in custody.

4. In addition, many stocks that do not trade on the major exchanges, such as most OTC stocks, are not eligible for DTC's FAST system. As FAST eligibility is a precondition to offering DRS, under DTC's rules, non-FAST securities remain certificated. When an OTC stock is deposited with a broker and held in street name, the physical certificate usually must be deposited in DTC's vault.

Many investors who hold shares through a bank or broker may not be aware that they have the option to hold their shares directly with the issuer through DRS or that when restricted or OTC securities are deposited with a bank or broker, the underlying certificates are still vulnerable to disaster. All issuers trading on the major exchanges (NYSE and NASDAQ) are eligible for DRS, and all but 400 of the 7,000-plus DRS-eligible issuers in the US participate in the program.

## KEY TERMS

**DRS (Direct Registration System)** – DRS allows shareholders to hold stock directly on the books of the issuer, through the issuer's transfer agent, without the need for a certificate, and allows for the electronic movement of shares between transfer agents and brokers.

**Book entry** – With a bank or broker, book entry means that a record of an investor's shares is managed on a bank's or broker's system, regardless of whether or not the certificate is completely eliminated. With DRS, shares are held in book entry on the records of the issuer's transfer agent and certificates are always eliminated.

**Street name** – Holding shares indirectly via an intermediary, such as a bank or broker, is often called holding in street name. In these cases, the investor has beneficial ownership of the shares.

**Beneficial ownership** – When a bank or broker holds shares on behalf of an investor client, the investor is said to have beneficial ownership.

**Dematerialization** – The elimination of certificates is known in the securities industry as "dematerialization."

**DTC (Depository Trust Company)** – DTC is a subsidiary of the Depository Trust and Clearing Corporation (DTCC), a corporation owned by its member firms – which include international broker-dealers, correspondent and clearing banks, mutual fund companies, and investment banks. DTC was established in 1973 to "immobilize" certificates by holding all paper stock certificates in one centralized location.

**Cede & Co.** – Cede & Co. is the nominee established by DTC for managing immobilized shares.

**FAST** – DTC's FAST program enables dematerialization of most shares held in Cede & Co.

**Restricted securities** – Restricted securities are not fully transferable until certain conditions are met. The restriction is indicated by a legend on the back of the certificate.

**OTC ("over the counter") securities** – OTC securities are generally issued by companies too small to list on a major exchange such as NYSE or NASDAQ and instead are traded "over the counter" in other arenas.

**Transfer agent** – On behalf of a publicly traded company, a transfer agent provides administrative services (recordkeeping, transfers of shares, etc.) for investors who hold shares directly in that company, rather than holding the shares in "street name" through a bank or broker.

## THE PROBLEM WITH PAPER CERTIFICATES

There is an urgent need in North America for securities industry participants, including issuers and investors, to take the steps necessary to move away from paper processing and fully embrace electronic recordkeeping – through greater encouragement of electronic recordkeeping of direct ownership of shares by investors through DRS and by making it possible for OTC, restricted and, where possible, certain international securities to participate in DRS. Understandably, there will still be occasions when paper certificates will be required, such as securities issued by non-US companies where local laws don't recognize DRS, although we believe those should become rare exceptions as time goes on. Paper certificate processing is slow and expensive in today's electronic world, where trades are now executed in fractions of a second.

- › Because of global trading competition and the need to reduce settlement risk, the securities industry is considering reduction of the settlement period (currently trade date plus three days in North America) to trade date plus only one or two days.<sup>1</sup> Just shortening the settlement period 33%, to trade date plus two days, will create challenges for investors who hold paper certificates – making it difficult to get certificates to brokers for timely conversion to street name form in order to settle a trade.

DTC has already made it clear that trade date plus two days is not the end goal and that a settlement period of trade date plus one day should be implemented before 2020. If the settlement period is reduced by 66% to trade date plus one day, significant changes, including mandatory dematerialization, will be needed to ensure all investors continue to have efficient access to the market.<sup>2</sup> The securities industry has identified dematerialization as a “core enabler” for achieving settlement in trade date plus one day.<sup>3</sup>

- › The securities industry, in the wake of 9/11 and Superstorm Sandy, is well aware of the need to move from paper certificates to an electronic recordkeeping system. On 9/11, \$16 billion worth of certificates held in bank and broker vaults were destroyed in the collapse of the World Trade Center towers. Recently, flooding of the DTC vaults at 55 Water Street in New York during Superstorm Sandy threatened to damage the 1.3 million certificates in those vaults.

## 'STREET NAME' VERSUS DIRECT REGISTRATION

It is common for investors to hold shares indirectly via an intermediary, such as a bank or broker (often called holding in “street name”). In these cases, the investor has beneficial ownership of the shares, and the issuer does not recognize the investor as a directly registered shareholder. Most commonly, indirectly held shares are registered in DTC's nominee name, Cede & Co.

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<sup>1</sup> October 2012, Boston Consulting Group, *Cost Benefit Analysis of Shortening the Settlement Cycle*, [http://www.dtcc.com/downloads/leadership/whitepapers/BCG\\_2012.pdf](http://www.dtcc.com/downloads/leadership/whitepapers/BCG_2012.pdf).

<sup>2</sup> October 2012, Boston Consulting Group, *Cost Benefit Analysis*. Presentation by DTCC at SIFMA Operations Conference and Exhibit, April 28 – May 1, 2013, [http://www.sifma.org/uploadedfiles/events/2013/operations\\_conference\\_and\\_exhibit\\_2013/elena-staloff-dtcc-breakfast-panel-the-accelerated-settlement-initiative.pdf?n=24804](http://www.sifma.org/uploadedfiles/events/2013/operations_conference_and_exhibit_2013/elena-staloff-dtcc-breakfast-panel-the-accelerated-settlement-initiative.pdf?n=24804).

<sup>3</sup> October 2012, Boston Consulting Group, *Cost Benefit Analysis*.

In the late 1960s, the volume of stock certificates being processed overwhelmed brokerage firms. In response, DTC was established in 1973 to “immobilize” certificates by holding all paper stock certificates in one centralized location. Cede & Co. was established as a means of managing immobilized shares. DTC’s FAST program enables dematerialization of most shares held in Cede & Co.

By immobilizing securities, DTC maintains accounts within its systems for the banks and brokers, representing the total number of shares of a particular security that an intermediary holds on behalf of its clients and itself. The beneficial “street name” owner’s records are maintained electronically in book entry on the internal systems used by the banks and brokers to track their clients’ holdings. Evidence of investor entitlement to the shares is provided through the issuance of regular statements. In these circumstances, Cede & Co. is the directly registered shareowner on the records maintained by the issuer’s transfer agent.

Even when beneficial owners’ shares are held indirectly through DTC, they may not be recorded in book-entry form on the issuer’s register. For example, most OTC securities are not eligible for DTC’s FAST system, and thus cannot participate in DRS. Those physical certificates are still held in DTC’s vault for the broker or bank. In addition, some FAST-eligible issuers do not participate in DRS, in which case the transfer agent is responsible for holding any certificates on behalf of Cede & Co.

On the other hand, the electronic Direct Registration System, adopted and implemented by the securities industry in cooperation with DTC in 1996, uses the issuer’s transfer agent’s system to enable investors to hold their shares in DRS-participating companies. Shares are maintained electronically in the investor’s own name on the records of the issuer or issuer’s transfer agent, without the need for a bank or broker intermediary. Under DTC rules, issuers must be FAST-eligible in order to participate in DRS. Shares are held with the same ownership privileges as shares held in certificated form, and, as with certificated direct shareholding, the investor’s identity is directly visible to the company that issued the shares. DRS allows investors to easily transfer and sell shares either directly through the issuer’s transfer agent, or through their bank or broker.

A high-level analysis of the majority of the Dow 30, representing more than \$143 billion in registered securities, revealed that approximately half the market value of directly held shares are in DRS, with the remainder in certificated form. Similarly, approximately half of the shares are in DRS and half are in certificated form. When “street name” book-entry shares held in Cede & Co. for these companies are included in the analysis, the value of shares held in non-certificated form increases to 95% of the total value.<sup>4</sup>

Based on this analysis, we can see that many holders already take advantage of DRS for their directly held shares; however, there is still opportunity to educate investors on the benefits of DRS.

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<sup>4</sup> June 2013, Internal analysis of Computershare client data.

## ADVANTAGES OF DRS FOR INVESTORS

DRS is a good choice for many investors. While active investors who trade frequently may prefer to hold accounts at banks or brokerage firms, infrequent traders may prefer a more cost-effective option to trade small holdings periodically. DRS holders may also add older certificated holdings to their DRS accounts via the transfer agent, to eliminate the risks and costs of the certificate holdings getting lost, stolen or destroyed. Transfer agents are registered with the SEC and are required to comply with all SEC transfer agent regulations.

Investors do need a third party – either a bank or broker or a transfer agent – to perform transactions with their shares, but they should choose such party on the basis of service and costs best suited to their needs. Investors holding shares in DRS in their own name, on the books of the issuer, can generally sell their shares directly through the transfer agent, transfer their shares to a bank or broker for sale, or transfer the shares into a bank or brokerage account, faster and easier without the need to send certificates.

Here are some additional advantages of DRS for investors:

- › Investors are not required to enter into an ongoing relationship with an intermediary third party, such as a broker or bank - and to pay the intermediary's fees - simply to hold securities.
- › Investors maintain direct legal title (i.e., direct ownership of the shares), better protecting them from any risk that their securities may not be immediately available to them due to a bank or broker's insolvency or other problems.
- › Investors receive shareholder communications directly from the issuer and vote their shares directly with the issuer, maintaining a direct relationship.
- › In exercise of other shareholder rights (e.g., mergers and acquisitions, annual or special meeting voting, or other elective actions), investors have a longer timetable for response, as they don't have to wait for the bank or broker to provide information and gather votes during the process.
- › Investors have greater choice in subsequent trading decisions - when shares are held with one bank or broker, it's technically difficult and financially expensive to transfer to an alternative broker to trade.

## BARRIERS TO HOLDING IN DRS

### Investors Are Not Informed of Their Options

Investors who have been told that the only way to safely eliminate the need to hold on to a stock certificate is to open an account with a bank or broker may find that option too costly or inconvenient, and simply retain the certificate. Even though DRS has been in operation since 1996, many investors are still not aware that they can hold their shares directly on the register of the company without a certificate and without a bank or broker intermediary, if the company participates in DRS. Investors can convert stock certificates to DRS directly with the issuer's transfer agent, or investors can have their bank or broker move their shares into DRS.

Individual account managers or financial advisors working for a bank or broker might not inform their clients of the option to hold shares directly through DRS, because DRS holdings will not increase the firm's "assets under management" and in some cases may reduce them. Assets under management are one of the measures that drive individual account managers' and financial advisors' compensation by their firms. It is naturally to their advantage to have certificates deposited into a brokerage account rather than converted to DRS and held in the investor's name.

#### **Bank and Broker Fees Are a Disincentive to Participate in DRS**

Some banks and brokers impose a surcharge to move a client's shares from "street name" into DRS. Historically, this would have covered a broker's higher processing costs for moving certificated shares; however, in a dematerialized environment those costs are eliminated. Moreover, some banks and brokers charge additional fees to hold certificated shares that are not eligible for book entry.

Banks and brokers may also charge a fee to move shares to DRS to help their firms maintain assets under management. This fee creates a disincentive for shareholders to move their holdings out of bank and brokerage accounts.

In contrast, transfer agents do not charge a fee to maintain accounts for shareholders who own stock directly with the issuer, and any fees for transferring DRS holdings to a broker or bank account are charged to the broker or bank, not the investor. These arrangements are therefore very attractive to "buy and hold" investors.

#### **Not All Securities Are Eligible for DRS**

All securities listed on the major US exchanges (NYSE and NASDAQ) are required to be DRS-eligible and can be held electronically, except for restricted securities and for the small number of foreign issues from countries whose laws don't allow for book-entry ownership such as DRS. Those securities are issued in physical certificate form in the name of the investor who owns the shares together with the details of any restriction. Securities with restrictions that are provided to a bank or broker for safekeeping cannot be re-registered into a nominee account and are held in the institution's or DTC's vault on behalf of the bank or broker, but in the investor's name, until the restriction can be removed and unrestricted shares can be issued or a transfer or sale can take place.

In addition, most OTC traded securities must be certificated. Banks and brokers generally deposit these shares in DTC's vault with themselves as nominee and maintain ownership records in "book entry" on their own internal systems. The certificates themselves are held in a centralized DTC vault. These two exception areas mean that without system and policy changes, physical certificates would continue to be issued and maintained for these specific circumstances.

#### **Not All Eligible Issuers Are Currently Participating in DRS**

Most DRS-eligible issuers participate in the program, making DRS available to their investors. But approximately 400 of the 7,000-plus DRS-eligible issuers in the US do not offer DRS as an option for their investors.

In addition to maintaining a pool of unnecessarily certificated securities, this handful of non-participating issuers creates a hurdle to investor participation in DRS by requiring an additional research step by the broker or the investor to determine whether their certificates can be placed in DRS.

## RECOMMENDATIONS FOR CHANGE

### Enable DRS for Restricted Stock and OTC Issues

To eliminate the need for stock certificates, it should be made possible for all issues held by US investors to be held in DRS, except for foreign issues from countries whose laws don't allow for book-entry ownership such as DRS.

- › Restricted stock: We recommend that the securities industry agree to enable restricted stock to be held in DRS, by implementing safeguards to ensure the restricted shares cannot be transferred or sold until the restrictions are released according to applicable legal requirements, and that the appropriate notations of the appropriate restriction language on the account is provided on the DRS statement.
- › OTC issues: DTC should issue clear eligibility criteria for admittance into FAST that will enable more OTC issues to be held in book entry either in "street name" or through DRS.

### Provide Investors With Information About Their Options

Issuers and groups that represent individual investors can do more to educate their holders and members on the difference between paper certificates and book-entry holdings, and how to manage their book-entry holdings both via DRS and through their broker or bank. In fact, all industry stakeholders, issuers and their agents should participate in this education, helping investors adapt to a more modern investment market.

Brokers and banks play a key role in this education. As the system stands now, brokers and banks have very little incentive to inform their clients about placing their shares in DRS. Banks and brokers should be required to disclose to investors all their holding options.

Computershare feels that as part of the SEC's responsibility for investor education and protection, the Commission should take a role in ensuring that shareholders are apprised of their ownership options when they buy a security through a bank or broker. This should also be included as part of the FINRA compliance training for broker-dealers.

Finally, all stakeholders should be required to be transparent about fees they charge for shareholder administration, so that investors can make an informed choice among available services.

### Require All Issuers Traded on NYSE and NASDAQ to Participate in DRS

Currently, issuers traded on the major exchanges are only required to be DRS-eligible, but are not mandated to participate in the program.

For equal choice for all investors, Computershare feels all issuers must offer DRS to all registered investors who wish to hold their securities without the need for a certificate, directly in their own name. Moreover, if banks and brokers have to determine which issuers are and are not participating, it is more difficult to explain ownership options at the account opening stage.

Computershare believes that the SEC should mandate that the major exchanges require that all listed companies participate in DRS (provided foreign law allows, if relevant) - with no exceptions. However, we are not at this time recommending mandatory conversion of all existing certificates to DRS. All industry stakeholders must have an opportunity to fully discuss the implications of such a step and come to agreement on future action.

The mandatory conversion of existing certificates may also require legislative changes, which should be analyzed and considered in the stakeholder discussions.

## NEXT STEPS

In 2012, DTC issued a white paper on dematerialization, focused specifically on measures that would reduce paper-handling by DTC.<sup>5</sup> Computershare argued that the DTC position did not go far enough, and that the industry needed to tackle the broader issues discussed in this paper.<sup>6</sup>

DTC has since called upon industry stakeholders to address the detailed steps required to implement both their original white paper proposals and to push forward with requiring all eligible issuers to participate in DRS, with the ultimate goal of significantly increasing dematerialization of the US market. Computershare, which can draw on its experience of those global markets where dematerialized holdings are standard, is actively involved in the discussions, representing the view of issuers and investors, while understanding that some investors will need to interact with brokers and banks to conduct their securities transactions.

One initiative that DTC is considering is to require that all issues of securities newly listed after January 1, 2014, be in DRS form, with no certificated option.<sup>7</sup>

Computershare continues to take the view that:

- > The current DRS system includes many of the attributes necessary to enable dematerialized holdings to be available to all investors in the US market
- > A broader adoption of DRS is needed both to provide investors with the opportunity to take advantage of today's modern shareholding methods and to enable tomorrow's shorter settlement turnaround times
- > Practices should be changed and education should be increased to remove any barriers, whether real or perceived, to investor choice in where they wish to hold their assets
- > DTC needs to be encouraged to expand the number of eligible issues for admission into their FAST system by developing acceptance guidelines and an appropriate appeal process

In short, reducing reliance on paper certificates wherever possible and maximizing investor options for dematerialization via DRS will enable timely settlement and efficient access to markets by investors.

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<sup>5</sup> July 2012, DTCC, *Strengthening the U.S. Financial Markets: A Proposal to Fully Dematerialize Physical Securities, Eliminating the Costs and Risks They Incur - A White Paper to the Industry*, [http://www.dtcc.com/downloads/leadership/whitepapers/white\\_paper\\_July\\_2012.pdf](http://www.dtcc.com/downloads/leadership/whitepapers/white_paper_July_2012.pdf).

<sup>6</sup> September 5, 2012, letter from Paul A. Conn, President, Global Capital Markets, Computershare Limited, to Jon Ciciola, Director & Product Manager, The Depository Trust & Clearing Corporation, [http://www.computershare.com/uk/business/qcm/Documents/US\\_Demat\\_Response\\_to\\_DTCC\\_White\\_Paper\\_20090512.pdf](http://www.computershare.com/uk/business/qcm/Documents/US_Demat_Response_to_DTCC_White_Paper_20090512.pdf).

<sup>7</sup> March 12, 2013, DTCC news release, "DTCC Proposes Steps to Move Ahead on Full Dematerialization of Physical Securities," [http://www.dtcc.com/news/press/releases/2013/full\\_dematerialization.php](http://www.dtcc.com/news/press/releases/2013/full_dematerialization.php).

## IMPACT OF DEMATERIALIZATION IN THE US MARKET

Reduce reliance on paper stock certificates as a means to facilitate physical stock transactions.

- > Companies will benefit from more effective recordkeeping of shareholder accounts and transactions on the books of the company.
- > Investors will benefit from a wider range of choices regarding administration of their assets in electronic form.

### DRS-eligible and participating issuers (approx. 6,600)

#### Common stock

**Effect on Company Operation**  
None

#### Recommended Action

Recommend that issuers educate registered shareholders and the securities industry educate “street holders” regarding DRS.

#### Restricted securities

##### Effect on Company Operation

If restricted securities brought within scope of the Direct Registration System, safeguards will need to be in place to ensure:

- > The restricted shares cannot be transferred or sold until the restrictions are released.
- > Notation of the restriction(s) (e.g., the actual restricted legend) on the shares is provided on the DRS statement.

##### Recommended Action

Recommend that securities industry develop systems and processes, along with recommendations for issuer and investor education.

### DRS-eligible, but not participating, issuers (approx. 400)

#### Common stock

**Effect on Company Operation**  
Recommend that SEC mandate that all issuers trading on NYSE and NASDAQ participate in DRS.

#### Recommended Action

Recommend that, once participating, issuers educate registered shareholders and the securities industry educate “street holders” regarding DRS.

#### Restricted securities

##### Effect on Company Operation

Assuming DRS participation, see notes on restricted securities above.

##### Recommended Action

See notes on restricted securities above.

### Over-the-counter (OTC) traded issuers

#### Common stock

##### Effect on Company Operation

Recommend that issuers, their advisors and agents work with DTC and regulators to enable OTC securities to fit within a defined framework that will extend DRS from where it is today.

##### Recommended Action

Recommend that DTC issue clear eligibility criteria for admittance into FAST, enabling more OTC issues to be held in book entry either in "street name" or through DRS. Also recommend that, once able, OTC issuers participate in DRS and educate registered shareholders regarding DRS option.

#### Restricted securities

##### Effect on Company Operation

Assuming DRS participation, see notes on restricted securities above.

##### Recommended Action

See notes on restricted securities above.

### Companies considering new listing on major exchange (NYSE or NASDAQ)

#### Common stock

##### Effect on Company Operation

DTC is considering a requirement that all issues of securities newly listed after January 1, 2014, be in DRS form, with no certificated option.

##### Recommended Action

Recommend issuers, their advisors and, where appropriate, their agents educate registered shareholders and the securities industry educate "street holders" regarding DRS.

#### Restricted securities

##### Effect on Company Operation

Assuming DRS participation, see notes on restricted securities above.

##### Recommended Action

See notes on restricted securities above.

*NOTE: Other securities that are traded in US markets, such as foreign securities that are ineligible for DRS, may continue to need to be in certificate form.*

## APPENDIX A: INVESTOR HOW-TO: HOLDING SHARES THROUGH THE DIRECT REGISTRATION SYSTEM

Holding shares through the Direct Registration System (DRS) is easy:

- › If you are making a first-time purchase, instruct your bank or broker to confirm that the issuer participates in the Direct Registration System, and if so, to register the shares in your name in DRS. The issuer's transfer agent will send you a statement showing your direct ownership of the shares in DRS and instructions on how to later sell or transfer all or some of those DRS holdings.
- › If you already have a certificate in your possession, contact the issuer's transfer agent at its toll-free number and the agent will provide you with the instructions and process to send the certificate(s) to the agent and set up a DRS holding. Once you send in your certificates, you will receive a statement confirming the shares are registered in your name on the books of the issuer and held in DRS.
- › Transferring or selling your shares at a later date is simple, just contact the transfer agent (instructions are generally provided on the statement) to transfer or sell<sup>8</sup> all or a portion of your DRS shares. Alternatively, you can take your DRS Advice/Statement to your bank or broker of choice and they can electronically move your DRS shares into the bank's or broker's Depository Trust Company participant account and sell the shares as directed by you.

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<sup>8</sup> Please note that not all transfer agents may offer a sale facility for DRS holdings. You will need to contact the specific transfer agent concerning its service offerings.

## APPENDIX B: KEY DEPOSITORY TRUST COMPANY (DTC) SERVICES

### Key DTC Services Related to Dematerialization

- › FAST: With FAST, the issuer's transfer agent administers the issuer's securities on behalf of Cede & Co., based on agreements in place between DTC and the transfer agent. In this case, DTC does not hold physical certificates in its vault. To be DRS-eligible an issuer has to be FAST-eligible.
- › Non-FAST: Where the securities are not eligible for FAST, DTC will hold the physical share certificates registered in the name of Cede & Co. in DTC's vault, and will maintain accounts within its systems for the banks and brokers representing ownership of those securities. The securities are book-entry on the accounts of the banks and brokers but certificated at DTC.
- › Custodial Services: With DTC's custodial services, certificates registered in a name other than Cede & Co. are held in safekeeping by DTC on behalf of DTC's participant (i.e., banks or brokers). DTC will maintain accounts on its systems for the banks and brokers representing ownership of those securities.

### About DTC

The Depository Trust Company (DTC) is a subsidiary of the Depository Trust and Clearing Corporation (DTCC). Through its subsidiaries, DTCC provides clearing, settlement and information services for equities, corporate and municipal bonds, government and mortgage-backed securities, money market instruments, and over-the-counter derivatives. In addition, DTCC is a leading processor of mutual funds and insurance transactions, linking funds and carriers with their distribution networks.

DTCC is owned by its member firms, including international broker-dealers, correspondent and clearing banks, mutual fund companies, and investment banks. As an industry-owned corporation, DTCC and its subsidiaries operate on an "at-cost basis," charging transaction fees for services and then returning excess revenue to its members.

All services provided through DTCC's subsidiary clearing corporations and depository are registered with and regulated by the US Securities and Exchange Commission (SEC).

DTCC's subsidiary, DTC, was established in 1973 in the wake of a paperwork crisis in the securities industry, in which the volume of stock certificates being processed overwhelmed brokerage firms. In response, DTC was established to "immobilize" certificates by holding all paper stock certificates in one centralized location, and automate the process by keeping electronic records of all certificates and securities clearing and settlement (changes of ownership and other securities transactions). Dematerialized shares are immobilized within DTC's Cede & Co. DTC's FAST program enables dematerialization of most shares held in Cede & Co. DTC provides securities movements for DTCC's National Securities Clearing Corporation's net settlements and settlement for institutional trades (which typically involve money and securities transfers between custodian banks and broker-dealers), as well as money market instruments.

DTC is a member of the US Federal Reserve System, a limited-purpose trust company under New York State banking law and a registered clearing agency with the Securities and Exchange Commission.



## **ABOUT COMPUTERSHARE**

Computershare is a global market leader in transfer agency, employee equity plans, proxy solicitation, stakeholder communications, and other diversified financial and governance services. Many of the world's leading organizations use Computershare's services to help maximize the value of relationships with their investors, employees, creditors, members and customers.