

By email to: [jciciola@dtcc.com](mailto:jciciola@dtcc.com)

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**Re: A Proposal to Fully Dematerialize Physical Securities, Eliminating the Costs and Risks they Incur**

Dear Mr. Ciciola,

Computershare appreciates the opportunity to comment on the issues raised in the White Paper: "*A Proposal to Fully Dematerialize Physical Securities, Eliminating the Costs and Risks they Incur*".

Computershare (ASX: CPU) is a global market leader in transfer agency and share registration, employee equity plans, proxy solicitation and stakeholder communications. We also specialize in corporate trust, mortgage, bankruptcy, class action, utility and tax voucher administration, and a range of other diversified financial and governance services. Founded in 1978, Computershare is renowned for its expertise in high integrity data management, high volume transaction processing and reconciliations, payments and stakeholder engagement. Many of the world's leading organizations use us to streamline and maximize the value of relationships with their investors, employees, creditors and customers. Computershare is represented in all major financial markets and has over 12,000 employees worldwide. In the US we currently service approximately 6,000 issuers and closed end funds, and more than 26 million active shareholders.

Our response is set out in two sections. The first part (pages 1-7) addresses high level principles that we believe should to be considered as a part of an initiative that intends to address 'the homestretch' of dematerialization in the US market. The second part (pages 8-11) addresses specific operational issues raised in the White Paper.

### **Part 1 – High Level Principles: Scope of the White Paper**

We note that the White Paper is almost entirely focused on a goal of removing the Depository Trust and Clearing Corporation ('DTCC') from various paper-handling processes and thus reducing DTCC's associated costs and risks. However, we do not believe that these initiatives alone can fully deliver on the promise of full dematerialization implicit in the title to the White Paper, and indeed that achieving this is not fully within the authority of DTCC. Nonetheless, we share your objective of working in partnership with the industry to modernize securities holdings structures to ensure the US market can evolve in a highly efficient manner.

We have commented below on the specific proposals in the Paper in relation to improved processes for deposit into DTCC; new issuances; and the handling of existing certificates in the DTCC vault. A number of these issues are already under discussion through the Transfer Agent/Broker/DTCC working group formed in the fall of 2011, and that forum should continue to analyze and agree the detailed implications of these proposals. It was disappointing to note that while the White Paper addresses efficiencies for moving securities *into* DTCC it does not address points of friction that inhibit removal of securities *out of* DTCC at an investor's direction. Such factors must also be addressed to improve the efficiency of the handling of securities and to ensure the preservation of investor choice in how they maintain their securities holdings, and we have highlighted some contributory aspects to this friction in our comments.

### *US Securities Holding Structure*

We are supportive of proposals to streamline current processes and remove risk and inefficiency. However, these proposals should be considered in conjunction with a broader dialogue between all key market stakeholders – including investors, issuers, transfer agents, banks and brokers, the exchanges, DTCC and the Securities and Exchange Commission ("SEC") – to discuss the full dematerialization of securities in the US. The more limited cost and risk reduction proposals contained in the White Paper should not therefore *de facto* constrain the evolution of the securities holding structure in the US. While the proposals set out in the White Paper may provide some short term benefits to certain market stakeholders, in our view they should not be pursued in isolation from a broader discussion about the appropriate structure of the US securities holding structure for the future.

The present structure of large-scale immobilization of securities has been in place in the US for around 40 years, and has assisted in the critical improvements in settlement efficiency achieved by the US market. However, immobilization was implemented as a relatively timely solution to the significant settlement problems experienced with the so-called 'paper-crunch'. Even at that point, it was not intended as the long-term solution to the US securities holding and settlement structure but provided a time-effective solution that avoided the need for substantial and time-consuming changes in state law. The current review of paper-handling processes and the parallel review of settlement periods provide an opportune point to revisit the fundamental structure of securities accounts in the US through an industry-wide dialogue.

As discussed further below, we believe that the law, technical infrastructures and market structures have developed sufficiently in the intervening decades to support, at relatively minimal disruption, a move to full dematerialization, including providing registered ownership to holdings at the DTCC participant account level (which in the future might also include segregated investor accounts, refer commentary at page 5), treating DTCC accounts as a sub-register on the transfer agent's list of registered owners in US companies. While we particularly appreciate, as the largest US transfer agent, the extent to which share certificates remain in circulation the market, we believe that the industry can develop mechanisms jointly to progress to a dematerialized environment for trading and settlement purposes in a suitably phased manner<sup>1</sup>. Full dematerialization should be pursued as a medium term goal for the US, while still

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<sup>1</sup> As one possible example, share certificates could be considered non-negotiable, requiring the investor to convert to DRS prior to depositing into DTCC for settlement of a sale transaction. The process for conversion from certificate to DRS would require stream-lining to prevent unnecessary delay for the investor, while allowing them to benefit from the efficient deposit process through Profile for DRS.

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considering any relevant immediate term operational process improvements within a consistent and coordinated framework.

#### *Relationship between Dematerialization and Settlement Period*

The separate dialogue that DTCC has commenced in relation to potentially reducing the market settlement period in the US from the current 'Trade Date plus 3' ('T+3') to T+2 or even T+1 is also relevant to this discussion. The status of dematerialization in the US market and the efficiency of processes to move stock into and out of DTCC are key considerations in the market's capacity to achieve a reduced settlement period. The interconnection between these two critical discussions needs to be clarified and addressed. The topics of dematerialization and reduced settlement period should not be addressed in isolation

For example, when the Australian market moved from a T+5 to T+3 settlement period in 1999, the Australian market stakeholders agreed that it was appropriate to first implement full dematerialization of securities listed on the Australian Stock Exchange, to facilitate T+3 and improve market efficiency. Similarly, we note the discussions currently underway in the European Union ('EU') in regard to the proposed Central Securities Depository ('CSD') Regulation<sup>2</sup>, which is expected to mandate that all EU markets adopt a T+2 settlement period and move to a fully book-entry (dematerialized or immobilized) basis on a phased basis. If the Regulation is enacted in this form, the requirement for dematerialization will apply to markets such as the United Kingdom and Ireland, both of which have substantial populations of retail investors currently holding share certificates.

The two issues of efficiencies in the settlement period and the appropriate holding mechanism have been considered to be very closely linked in these markets. In the US, we believe that it would be very difficult for certificated shareholders to meet T+2 or T+1 settlement without detriment in terms of cost and/or trading delays.

***In view of these issues, we strongly believe that a stakeholder group should be formed specifically to review the issue of full dematerialization in conjunction with the appropriate settlement period for the US market. The stakeholder dialogue must extend beyond the more limited framework of the White Paper and address the interactions with other related market issues and the potential impact on all stakeholders. Such a group should be convened jointly by DTCC, the New York Stock Exchange and NASDAQ. Participants should include representatives from SIFMA, the Society of Governance Professionals and Corporate Secretaries, the Shareholder Services Association, the Securities Transfer Association, the SEC, and representatives of retail investors (e.g. Better Investing).***

Given the substantial numbers of Canadian issuers listed in the US, and the impact of the White Paper's proposals on those issuers, we also recommend inclusion of a representative from Securities Transfer Association of Canada ('STAC'). Moreover, given the high degree of interconnection between the US and Canadian markets, we believe that the issues of dematerialization and reduced settlement periods should

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<sup>2</sup> 'Proposal for a Regulation of the European Parliament and of the Council on improving securities settlement in the European Union and on central securities depositories (CSDs) and on amending Directive 98/26/EC'

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be subject to close cooperation between the relevant market regulatory, industry and infrastructure bodies.

The proposals under consideration by DTCC as detailed in the White Paper should be reviewed and addressed by this stakeholder group and not solely by DTCC. Indeed, a number of the proposals presented in the White Paper would necessitate changes to law and processes by other entities that DTCC does not alone have the authority to compel. We are happy to continue to work with DTCC within this industry dialogue to find a common path to DTCC's goal of reducing its paper handling but these discussions must occur within the context of ensuring investor and issuer choice over holding structures.

### **Full Dematerialization**

Computershare supports the goal of full dematerialization of existing physical securities in the US. However, dematerialization must be progressed in a manner that balances the interests of all stakeholders and ensures that investors retain a real choice in their method of holding securities. The goals of settlement efficiency and cost-effectiveness must be balanced with issuer and investor concerns related to governance and shareholder choice.

In many instances, it appears to us that DTCC does not perceive issuers as key stakeholders in its business structure and services. While we appreciate that the purpose of DTCC is to facilitate efficient settlement between market participants (and their agents), the market structure must equally serve the needs of issuers and investors. The dematerialization dialogue should not therefore simply present the benefits of settlement efficiency without adequate consideration of the flow on impacts to corporate governance and the rights and responsibilities of issuers and investors.

Further, the benefit of efficiencies and cost reductions that dematerialization can potentially deliver, as well as the costs of implementation, should be balanced among the relevant stakeholders, including issuers, transfer agents, investors, banks and brokers as well as DTCC. Other SROs and regulators will need to be critically engaged in an industry inclusive dialogue to establish the requisite regulatory structure. In our view, DTCC alone does not have the regulatory standing to achieve this fuller goal, which the Paper purports to target.

The discussion on dematerialization must take into consideration the impact of DTCC's proposals on non-US issuers as well as US issuers. In particular, many Canadian issuers will be directly impacted by DTCC's proposals. For example, making non-FAST issues ineligible for DTCC, as mooted in the Paper, would substantially disadvantage Canadian issuers and their US-based investors. The integration of the U.S. and Canadian securities markets has provided participants and investors with efficient and cost-effective access to securities in both markets.

A move to full dematerialization will necessitate a sustained industry partnership with all key stakeholders' participation. This will need to include an education program for issuers, investors and banks/brokers. In particular, it has been apparent to us that the front office staff of many broker-dealers are, in general, relatively uninformed in relation to the holding options for purchasers and we question whether investors are effectively advised of their holding options at the time of purchase. Education programs would need to ensure that stakeholders at all stages of the transaction cycle are fully apprised

of the market options available to investors, that they communicate these to investors, and that investors are freed from any barriers to exercising their choice in holding mechanism.

If the position of existing certificated holders is not addressed while DTCC nonetheless proceeds with the initiatives proposed in the White Paper for new issuances, there is a risk of substantial disadvantage to certificated investors, with potentially higher charges being imposed by intermediaries to handle certificated securities and/or delays in trading and potential price disadvantage while securities are deposited, particularly if the market settlement period is reduced in line with current discussions. This is an unpalatable and unacceptable outcome for investors who choose not to hold their securities via an intermediary, especially retail investors.

For the US market to move to full dematerialization, it is essential to ensure that there is a structure for real investor choice in how they hold their shares; and that the benefits of dematerialization are made available to investors in all relevant US issuers, not differentiated by whether it is a new issuance or existing security issue. It is also necessary to appreciate that not all US issuers are DTC eligible, and it will be important to address the appropriate criteria for which issuers should be dematerialized, as well as how dematerialization should occur. The stakeholder group that we have proposed should address these critical issues.

In agreeing the path to achieving full dematerialization in the US, we believe the following key considerations should be among the issues addressed:

#### *Mandating DRS for Listed US Securities*

DRS is an appropriate model for the full dematerialization of securities listed on a US exchange. DRS provides investors with choice in how their holding is administered, allowing investors to obtain the benefits of holding securities in book-entry form but allowing them to maintain a direct legal relationship with the issuer without being tied to a commercial relationship with an intermediary. DRS allows investors to avoid any ongoing cost in holding securities, as the costs of their account administration are paid by the issuer. This is particularly valuable for longer term investors. By contrast, an investor that holds their securities through a bank or broker is most likely required to pay a fee to their intermediary to administer the holdings.

By agreement with the stock exchanges and the SEC, the exchanges could require all of their listed US issuers to make arrangements to have their listed securities registered in DRS form and remove all outstanding share certificates, over an appropriately phased period.

The position of issuers whose securities are not listed on a US exchange but instead are traded on other venues will need to be discussed, as will issuers that are not presently DTCC eligible. An assessment should be made whether dematerialization is necessary or appropriate for such companies.

Similarly, discussion is required in relation to the impact on non-US issuers where their securities are listed or traded directly in the US. The position of Canadian issuers in particular should be considered, in view of the number of Canadian issuers that are listed in the US and whose securities are held in DTCC. However, we are aware that issuers from many other jurisdictions maintain listings of their common stock

in the US, and consideration must also be given to their position, to ensure that the US remains the pre-eminent market for foreign issuers.

#### *Legal Status of Accounts in DTCC*

Due consideration should be given to making the DTCC records of its participants' securities accounts a legal subregister of the issuer's securities, providing direct registered ownership to the holders of accounts in DTCC. Establishing DTCC as a subregister of registered title, instead of having securities ownership immobilized through CEDE & Co., would enable DTCC to remove itself from an active role in the complexities of securities administration that are not core to its role in the market. For example, the administration of dividend payments, proxy voting or the exercise of other shareholder rights that currently flow through CEDE & Co's legal title.

This would be an important change in structure for the US. It would more closely connect investors to issuers by establishing the relationship via the investors' chosen intermediary that administers their shares rather than also interposing DTCC as the operator of the central settlement infrastructure into the legal holding structure. Legislative change would be required to give effect to this approach. However, operationally and in terms of systems-structure, this evolutionary change would leverage DTCC's existing central infrastructure for communications and DTCC participant account maintenance and connectivity with market participants and transfer agents.

We could envision the law recognizing DTCC as the administrator of the securities accounts held on its systems, acting on the instructions of its participants (as now) to debit and credit accounts. However, the participant accounts would be recognized by operation of the law as part of the issuer's register. The interaction between the DTCC records and the issuer register could be characterized in a number of ways, with international precedent available to analyse the implications of each for the US context. For example, DTCC could act as a sub-agent of the issuer maintaining the DTCC subregister of title intra-day, while the central securities record held by the transfer agent is updated at close of business by a feed from DTCC to the transfer agent<sup>3</sup>. Alternatively, it is technically feasible for DTCC to send transactions and/or updated account positions to the transfer agent throughout the day, and thus the transfer agent records remain a single central record of title at all times. There are a number of other alternate approaches also that could be assessed to agree the most effective approach for the US market.

We urge that this possibility be carefully considered by the proposed stakeholder group. This proposal benefits DTCC by significantly reducing its risk as depository (and conversely participants' risk to DTCC) while continuing to endorse its central role as the operator of the accounts of market participants and of the securities settlement system. Participants and their clients benefit from a less cumbersome chain of legal title and distribution of shareholder rights, and the transparency of the market would be significantly improved.

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<sup>3</sup> We note that in Canada, CDS includes participant holdings in the daily exchange of files used to reconcile transfer agent and Depository Holdings.

This proposal could also support the greater segregation of client assets, providing the protection of legal title to segregated accounts in the DTCC record-keeping system. Segregation as a mechanism to ensure protection of client assets in the event of insolvency of the account provider is a growing international concern following the experiences of Lehman Bros and MF Global. Segregated accounts could be operated directly in the name of the investor, administered on their behalf by their appointed participant, or in the name of the participant's nominee with account-keeping arrangements ensuring the appropriate connectivity between the DTCC account and the participant's client investor.

The CPSS-IOSCO "Principles for Financial Markets Infrastructures" (April 2012) includes principle 11, that:

*"A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry."*<sup>4</sup>

Among the key considerations for a CSD in giving effect to this principle, the following is cited:

*"Where supported by the legal framework, the CSD should also support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings."*<sup>5</sup>

Establishing a legal and technical structure whereby accounts at DTCC benefit from transparency, direct legal title and facilitate client asset segregation would place the US in the forefront of efforts to improve securities administration processes in the wake of recent scandals and investor losses. We note that the EU's proposed CSD Regulation is expected to require all CSDs to facilitate participants operating segregated accounts on behalf of individual clients (likely at the client's election), in addition to segregation of the participant's assets from the assets of its clients.

#### *Seamless interaction between DTCC and Issuer register*

To successfully achieve dematerialization, it will be essential to ensure that the movement of securities between the issuer's dematerialized register and DTCC are highly efficient.

The current structure and market processes inject points of friction in the movement of securities into and out of DTCC's systems. These arise in relation to the deposit of certificated holdings into DTCC, and the withdrawal of any shares from DTCC. The process of depositing shares held in DRS into DTCC, via Profile, is by contrast efficient and timely. The White Paper discusses possible approaches to improving the efficiency and cost effectiveness of depositing certificated securities into DTCC. We are happy to discuss with DTCC these options further, and any others that will equitably improve efficiency for stakeholders. However, it will be equally important to identify and address the frictions in processes and systems for the withdrawal of securities from DTCC. Failure to achieve this will diminish the effectiveness of investor choice in how to hold their shares, and will penalize those investors that want to hold directly on the issuer's register. Withdrawal processes are highly automated and require minimal intervention.

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<sup>4</sup> CPSS-IOSCO "Principles for Financial Markets Infrastructures", April 2012 p.72

<sup>5</sup> *Ibid.*

However, for example, fees imposed by DTCC and/or some banks and brokers on withdrawal instructions can act as an inappropriate disincentive to investors. Similarly, failure to adequately communicate their holding options to investors at the point of purchase inevitably limits the effectiveness of investor rights over how their securities are recorded.

Stakeholders need to identify, analyse and address such points of friction to ensure that investors retain a viable choice in how their securities are administered.

## **Part 2: DTCC Specific Proposals in White Paper**

Computershare has been an active participant in the industry working group formed in the fall of 2011 to discuss operational efficiencies between transfer agents, brokers, and DTCC. Our support and commitment to this industry dialogue will continue. We believe that the industry working group is the appropriate forum for analyzing and agreeing the implementation of reforms to the processes between transfer agents, brokers and DTCC. Concurrently, in our view, a broader stakeholder group must be formed to address the overarching policy and structural aspects of delivering full dematerialization. The industry working group should operate in close coordination with this stakeholder group to ensure that all procedural changes are consistent with an agreed broader strategy for the future of the securities holding structure.

### *Deposit Options into DTCC*

The White Paper addresses three new deposit options. The first option is to redirect broker presentments directly to the transfer agents through the existing Deposit and Withdrawal at Custodian (DWAC). Although this is a viable near-term solution to reduce the volume of work through DTCC, the process is still manual for the brokers and transfer agents and further dialogue among the industry group is needed to discuss other enhancements to directly servicing broker presentments by the transfer agents.

The second option is to reduce the number of days the deposits will be processed at DTCC. This will increase the volume on certain days and result in no volume on others. This could present challenges for transfer agents if it has an impact on meeting SEC turnaround requirements, particularly in light of the proposed rule changes that we understand are being considered by the SEC in this area. This requires further analysis and discussion by the working group particularly in light of the potential regulatory impact. The third option would continue with DTCC's existing process but increase fees.

As discussed earlier, we are concerned that if these proposed changes to DTCC processes are implemented in isolation from a broader effort to fully dematerialize, there is a risk of substantial disadvantage to certificated investors. Particularly if the market settlement period is reduced in line with current discussions, certificated holders may need to deposit their shares prior to trading (with associated delays in ability to trade) and/or face higher fees for expedited deposit processes to ensure their ability to meet settlement deadlines. This is an unpalatable and unacceptable outcome for investors who choose not to hold their securities via an intermediary, especially retail investors, and therefore we are of the opinion that these process changes should not be implemented in the absence of a broader stakeholder effort to address the issue of certificated holdings.

We also note that the White Paper discusses a phased approach to handling deposits. A proposed second phase would look at the ability to pass a file, similar to the DRS Profile process, where a certificate for presentment would be validated as being active at the transfer agent and the submitter upon confirmation would destroy the certificate. As outlined in the White Paper, this will require the support of key stakeholders and legal/regulatory changes to move forward. **We recommend that this dialogue is expedited and included in the proposals for phase 1, as it could reduce or even avoid the need for the other three proposals discussed above.** If the market proceeds to full dematerialization, this could act as an interim mechanism to manage deposit of certificates in an efficient and timely manner, and minimize disadvantage to certificated holders.

A similar approach was adopted in the Australian market in the mid-1990s, prior to the full dematerialization of listed securities in Australia, allowing brokers to cancel certificates in their office and relying on electronic confirmation between the broker and transfer agent to deliver securities into the central settlement system, CHESS. Based on our experience in Australia, this approach requires a robust legal structure to ensure that issuers, transfer agents and shareholders are indemnified against any error or fraud but can significantly improve the timeliness of the deposit process. Conceivably, regulatory changes addressing the legal responsibilities and liabilities of DTCC, its participants, and transfer agents could be made to address this.

#### *New Issues*

We were surprised to note that the section on handling new issuances does not include discussion of mandating DRS at least for exchange listed securities of US issuers. DRS is an entirely suitable mechanism to achieve the settlement efficiencies that DTCC seeks to implement. We believe this issue needs to be discussed by a broad stakeholder group to ensure that the interests of retail investors and issuers are adequately considered in addition to market participant concerns with process efficiency. As discussed previously, it will also be essential to consider the position of non-US issuers that may be unable under their domestic jurisdiction's requirements to dematerialize.

#### *Existing DTCC Vault Inventory*

These issues should continue to be addressed through the discussions of the industry working group.

In relation to the treatment of restricted securities, we believe that the proposal for 'Networking for Equities' ('NFE') could deliver tangible benefits should be investigated further. Again, this appears similar to the Australian approach of 'broker sponsorship', where brokers establish accounts in CHESS in the name of the investor. The sponsored account is electronically controlled by the broker but benefits from direct legal title on the register of the issuer. Holdings subject to restrictions are 'locked' to prevent transfer in accordance with the terms of the restriction.

As discussed previously, Computershare is of the opinion, more broadly, that DTCC account records should also be considered a subregister of the registered file and benefit from direct legal title. This legal structure would enhance the potential benefits described in the White Paper in relation to NFE, preserving the legal title of a certificated account in the electronic environment while ensuring the necessary transparency of the position of the restricted security holder.

### *Changes to DTCC Eligibility – Foreign Issuers*

We note that the Paper identifies the potential for changes to eligibility requirements from 2015, including the possibility of making non-FAST certificated securities ineligible for DTCC. We are very concerned to see the possibility of such a substantive change in the absence of a constructive plan to address the issue of eligibility. Such changes in eligibility would very detrimentally impact a number of issuers and their investors, and this suggestion injects an unacceptable element of uncertainty into the market. This potentially impacts on issuers' decisions in relation to accessing the US market, particularly for issuers from non-US jurisdictions that may mandate the issuance of share certificates in a manner that precludes FAST participation.

We note that many Canadian issuers listed in the US are not currently FAST eligible and would be disadvantaged by such a change to DTCC eligibility requirements. There are a number of contributing factors to this, including:

- › The DTCC eligibility requirements are onerous and expensive for many small cap issuers. Even simple tasks such as OFAC monitoring now requires involvement by a US Agent or Co-Agent.
- › Participating in FAST necessitates that a Canadian issuer appoint a U.S. co-agent. The cost of doing so may result in such issuers withdrawing from DTCC, with detrimental impact for their US-based investors.
  - Currently our Canadian transfer agent records show 438 issuers no longer have securities registered in the depository's nominee name Cede & Co and this number increases monthly.
  - For these issuers that have withdrawn from DTCC, most of their US investors' holdings have moved into the Canadian Depository for Securities ('CDS') through sub-custodians. This re-shaping of the securities holding structure has led to problems with proxy voting instructions as there is no effective mechanism to identify share positions if the position is now held through a chain of intermediaries. As such, many US investors in these issuers are often disenfranchised.
- › Moreover, the Canadian market has identified an ongoing concern with handling non-FAST issues for issuers that offer the Canadian form of DRS holdings. Computershare Canada has over 1,200 client offering DRS on a voluntary basis to Canadian and US registered holders. While Canadian DRS can still be processed through either CDSX or DTCC Profile systems, for non-FAST issues US brokers convert the Canadian DRS holding to a certificate (or request the investor to provide them with a certificate), in response to DTCC's requirement that a certificate is deposited for non-FAST issues. They then deposit through the DTCC non-FAST process only to have those certificates sent back to Canada a second time to be re-registered in DTCC's nominee name. Contrary to the stated goal of reducing paper processing, this arrangement is highly inefficient and should be reviewed by appropriate experts from the various stakeholders.
- › If these Canadian issuers continue to withdraw from DTCC to avoid the costs of FAST eligibility, it will result in more certificates being issued and being handled by the US market. While DTCC would not be directly involved in the paper-handling processes in that eventuality, it would be detrimental to market efficiency overall and therefore should be addressed.

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We further note that DTCC has recently entered into agreements in relation to a number of issuers incorporated under the laws of England & Wales, to enable DTCC eligibility and FAST eligibility for their ordinary shares listed on the New York Stock Exchange. Again, we are concerned to ensure that the brief reference in the White Paper to DTCC potentially altering the eligibility criteria does not subsequently impact upon the position of these issuers and *ex post facto* alter their eligibility status.

#### *DTCC Eligibility Criteria for Issuers – In General*

In relation to this discussion, it is of significant concern that DTCC does not at present provide documented eligibility criteria for issuers, but instead reserves to itself the discretion to determine eligibility requirements of each applicant.

The impact of DTCC eligibility for an issuer's securities, potentially affecting trading, liquidity and price of the securities, was clearly acknowledged by the SEC in the recent matter of International Power Group, Ltd<sup>6</sup>. That decision also clarified that the relationship between DTCC and issuers created an obligation on DTCC to adopt fair procedures and observe these uniformly in its dealings with issuers. The CPSS-IOSCO Principles also highlight the importance of the relationship between issuers and CSDs, stating: "*The preservation of the rights of issuers and holders of securities is essential for the orderly functioning of a securities market. Therefore, a CSD should employ appropriate rules, procedures and controls to safeguard the rights of securities issuers and holders...*"<sup>7</sup>. Consistent with this principle, we believe DTCC should recognize issuers (and their agents) as key stakeholders in defining its structure and services, and establish clear criteria for its interaction with issuers.

#### **Summary**

We believe that the current market discussions in relation to dematerialization and a reduced settlement period (as with the similar discussions in Europe and other major international markets) present a timely and valuable opportunity to review and improve the structure for securities holdings. With due consideration of appropriate supporting technical, process and legal requirements, market stakeholders have the opportunity to deliver key benefits of market efficiency and cost reduction in a manner that also preserves *and improves* corporate governance and the rights of issuers and shareholders.

A robust, secure, fully dematerialized securities market that reduces intermediation by delivering legal title and provides investor choice in asset segregation also would reassure investors concerned by the events of the financial crisis and the Lehman and MF Global insolvencies, and would ensure that the US remains at the forefront of international developments in securities market structure.

Computershare is committed to working with its clients, DTCC, the exchanges, the SEC, and other key market stakeholders to find solutions that appropriately balance the interests and concerns at issue, and deliver these benefits.

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<sup>6</sup> Rel. No. 66611/March 15, 2012; Admin. Proc. File No. 3-13687

<sup>7</sup> CPSS-IOSCO, *op cit.*, p.73

Please contact Claire Corney, Senior Manager, Market Development, Global Capital Markets (Claire.Corney@Computershare.com) at 212 805 7159 if you have any questions in relation to our comments above.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'PCAN', with a long, sweeping horizontal line extending to the right.

**Paul A. Conn**

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