

MEMO# 8197

September 4, 1996

SEC PROPOSED RULES CONCERNING LOST SECURITYHOLDERS

September 4, 1996 TO: INVESTMENT ADVISERS COMMITTEE No. 20-96 OPERATIONS COMMITTEE No. 21-96 SEC RULES COMMITTEE No. 93-96 TRANSFER AGENT ADVISORY COMMITTEE No. 54-96 ABANDONED PROPERTY TASK FORCE RE: SEC PROPOSED RULES CONCERNING LOST SECURITYHOLDERS

The Securities and Exchange Commission has issued a proposal that would require transfer agents to search for lost securityholders and would authorize the Commission to collect information on lost securityholders and provide it to information distributors or others. A copy of the proposal is attached and it is summarized below. As noted below, the attached release seeks comments on, among other things, the types of entities that should be subject to the proposed searching and information filing requirements. Comments on the proposal must be filed with the SEC by October 28, 1996. If there are issues you would like the Institute to consider addressing in its comment letter, please call Justine Phoenix at (202) 326-5850 or the undersigned at (202) 326-5824 by Monday, September 30, 1996.

Proposed Rule 17Ad-17 Proposed Rule 17Ad-17 would require "recordkeeping transfer agents" (defined in Rule 17Ad-9 as the registered transfer agent that maintains and updates the master securityholder file) to conduct searches for lost securityholders. Under the proposed rule, a securityholder would be deemed lost when two different items of correspondence that were sent by first class mail at least three months apart have been returned as undeliverable and the transfer agent has not received information regarding the securityholders new address. Within three months after a securityholder is classified as lost, the recordkeeping transfer agent would be required to use at least one "information database service" (as proposed to be defined) to search for such securityholders current address. If the securityholder is not found on the initial search, the transfer agent would have to conduct a second search between one year and eighteen months after the initial search. The searches would have to be conducted without charge to the lost securityholder. Transfer agents would be required to keep records necessary to demonstrate compliance with the rule. The attached release seeks comments on several aspects of proposed Rule 17Ad-17 including, among other things, the proposed standards for classifying lost securityholders, the potential costs of the proposed rule and whether there are other entities that maintain ownership records, such as broker-dealers, that also should have search requirements. Proposed Rule 17a-24 Proposed Rule 17a-24 would require "recordkeepers" to file electronically with the SEC on or before May 31 of each year a list of the taxpayer identification numbers of all lost securityholders for which they maintain records of ownership interests as of May 1 of such year. The proposed rule defines "recordkeeper" to include, among others, "a registered broker or dealer . . . which

maintains records of securities received, acquired, held, or carried by or on behalf of such entity for the account of any securityholder," and a recordkeeping transfer agent. Like proposed Rule 17Ad-17, proposed Rule 17a-24 would require recordkeepers to maintain records necessary to demonstrate compliance. Comments are sought on a number of issues including, for example, whether other entities, such as investment advisers, should be included within the definition of "recordkeeper," the feasibility of the proposed filing requirement, securityholder privacy concerns and the method to be used for filing (i.e., EDGAR or the Internet). The release also seeks comments on whether, as an alternative to proposed Rule 17a-24, the Commission should establish and maintain a lost securityholder database, and on related issues. Amy B.R. Lancellotta Associate Counsel Attachment

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