

**MEMO# 6481**

December 20, 1994

## **SEC PROPOSED AMENDMENTS TO TRANSFER AGENT RULES**

December 20, 1994 TO: OPERATIONS COMMITTEE No. 34-94 TRANSFER AGENT ADVISORY  
COMMITTEE No. 49-94 RE: SEC PROPOSED AMENDMENTS TO TRANSFER AGENT RULES

The Securities and Exchange Commission is proposing amendments to certain transfer agent rules regarding turnaround time, recordkeeping and safekeeping of shareholders' assets. The rule changes are being considered in preparation for the shortened settlement period from T+5 to T+3 and a proposal to establish a transfer agent operated book-entry registration system ("direct registration system" or "DRS"). While book-entry is the predominant form of registration for registered investment company shares and dividend reinvestment plans, the proposal allows this form of registration to be extended to corporate equity and debt security holders. A copy of the Commission's proposing release is attached. The Commission is also seeking comment on whether additional rules are needed in light of T+3 and the proposed direct registration system. Of particular interest to registered investment companies are discussions in the proposing release related to: confirmation statement issuance and disclosure, separate bank accounts for investors funds' minimum net worth and insurance requirements. Confirmation Statement Disclosure In light of the availability of "book-entry" registration for all transfer agents, and the reduced number of certificated transactions, the Commission is seeking comment on the types of records transfer agents must keep and the disclosure transfer agents should be required to make. Specifically, for transfer instructions either transmitted electronically or by telephone, what, if any, additional records transfer agents should be required to maintain to ensure the integrity of the instructions. With regard to confirmation statements, the Commission is seeking comment on whether transfer agents should be required to a.) issue confirmation statements every time there is a transaction that changes the shareholder's account (similar to those required to be sent by broker/dealers in Rule 10b-10), and b.) disclose specific information on shareholder confirmation statements. The Commission is seeking comment on what, if any, information should be required disclosure on the shareholder's confirmation statement. Also, if there is no activity in a shareholder's account, how often transfer agents should send a statement to the shareholder. - 2 -

**Separate Bank Accounts for Shareholders** The Commission is proposing an amendment to Rule 17Ad-12, under the Securities Exchange Act of 1934, which would require every registered transfer agent to maintain a "Bank Account for the Exclusive Benefit of Security Holders". This bank account would remain separate from any other bank account of the transfer agent. The proposed rule is intended to restrict commingling of shareholders' funds with other funds of the transfer agent. The Commission is seeking comment on this proposal and whether other financial institutions or account structures in addition to a bank might be used or mandated. **Minimum Net Worth and Insurance Requirements** The

Commission is seeking comment on whether minimum net worth requirements for transfer agents are necessary and whether financial risks to shareholders would be reduced significantly if a minimum net worth requirement for transfer agents were regulated. Issues to be considered include whether net worth requirements impose undue expense on transfer agents and whether alternatives to net worth requirements will also achieve the goals of prompt, accurate, and safe transfer and clearance of transactions. Also for consideration is whether an insurance requirement is necessary for the protection of investors and, if so, what type and amount should be required. Comment is requested on whether the insurance requirement should be imposed as an alternative to a net worth requirement and whether there are safeguards other than an insurance requirement that should be considered appropriate. Comments must be filed within 60 days of the proposal's publication in the Federal Register. If there are issues you would like the Institute to consider including in its comment letter, please contact me at 202/326-5850 by January 13, 1995. Justine Phoenix Director - Operations/ Transfer Agency Attachment

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