

MEMO# 10900

April 15, 1999

SEC PROPOSES AMENDING RULE 17AC2-2 AND RELATED TRANSFER AGENT FORM (TA-2) AND RESCINDING RULE 17A-24

1 Revised Transfer Agent Form and Related Rule, Rel. No. 34-41204 (March 23, 1999); 64 Fed. Reg. 15310 (March 31, 1999) (the "Release"). 2 Currently, Rule 17Ac2-2 provides that a registered transfer agent is required to complete only Items 1 through 4 of Form TA-2 if it: received fewer than 500 items for transfer and fewer than 500 items for processing in the six months ending June 30, and did not maintain master securityholder files for more than 1000 individual securityholder accounts as of June 30. [10900] April 15, 1999 TO: OPERATIONS COMMITTEE No. 14-99 TRANSFER AGENT ADVISORY COMMITTEE No. 27-99 RE: SEC PROPOSES AMENDING RULE 17Ac2-2 AND RELATED TRANSFER AGENT FORM (TA-2) AND RESCINDING RULE 17a-24

The Securities and Exchange Commission recently proposed amending Rule 17Ac2-2 and related Transfer Agent Form TA-2 and rescinding Rule 17a-24 under the Securities Exchange Act of 1934. 1 The proposed amendments are intended to make technical corrections and provide greater clarity to Form TA-2. The amendments are designed to clarify filing requirements and instructions, eliminate or change ambiguous terms and phrases, delete certain redundant or unnecessary questions, and add questions to assist the Commission to more effectively monitor the transfer agency industry. With respect to Rule 17Ac2-2 and Form TA-2 the proposed amendments would: (1) elicit additional information regarding transfer agent business activities, such as direct purchase and dividend reinvestment plan accounts, buy-ins, and turnaround time for routine items; (2) request more useful lost securityholder information; (3) enhance service company information; (4) eliminate the filing exception, and clarify the filing requirements and instructions; (5) conform reporting periods; (6) delete unnecessary questions; and (7) make technical changes. The proposed changes are attached and are discussed below. Comments on the proposal are due to the SEC by Monday, May 17, 1999. The Institute is considering whether to comment on the proposed rules. If there are issues you would like the Institute to consider addressing in a possible comment letter, please contact Kathy Joaquin by phone at 202/326-5930 or email at kjoaquin@ici.org, or Justine Phoenix by phone at 202/326-5850 or email at justine@ici.org by Monday, May 10, 1999. Modifications to Rule 17Ac2-2 Rule 17Ac2-2 would be amended to require every transfer agent that is registered on June 30th to file Form TA-2 by August 31st of that calendar year. Second, the proposed amendment would revise the partial exception² to the full filing requirement so that it applies to a registered transfer agent that 3 The release notes that the master

securityholder account element would not change. A transfer agent with this level of activity would be required to complete only Questions 1 through 5, 10, 11 and the signature section of Form TA-2. 4 Rule 17Ad-11(c)(2) generally requires that within ten business days following the end of each calendar quarter, every recordkeeping transfer agent shall report certain information when the aggregate market value of all buy-ins executed pursuant to Rule 240.17Ad-10(g) during that calendar quarter exceeds \$100,000. 17 CFR 240.17Ad-11(c)(2). 5 Registered transfer agents are required by Rule 17Ac2-1(c) to amend Form TA-1 or the SEC Supplements to Form TA-1 within 60 calendar days following the date on which information reported therein became inaccurate, incomplete, or misleading. 6 Appropriate regulatory agency. 7 17CFR 240.17Ad-11(c)(2). Generally, Rule 17Ad-11(c)(2) requires a transfer agent to file a report at the end of each quarter during which it has an aged record difference. received fewer than 1,000 items for transfer and fewer than 1,000 items for processing in the twelve months ending June 30 of the year for which the form is being filed.³ Third, currently all registered transfer agents except “named transfer agents” that engage a service company to perform all of their transfer and processing functions are required to file annually Form TA-2. The proposed rule amendment would eliminate the exception. A named transfer agent that engages a service company to perform all of its transfer and processing functions would be required to complete only the first four questions and the signature section of Form TA-2. Thus, every registered transfer agent would be required to file a Form TA-2 annually. Form TA-2 The Commission proposes to amend Form TA-2 to obtain more complete information regarding service companies, the transfer agent’s amendments to its Form TA-1, direct purchase and dividend reinvestment plan accounts, buy-ins,⁴ lost securityholders, and turnaround time for routine items. The proposal also includes numerous technical and conforming changes. The revised Form TA-2 would contain a question asking if the registrant has amended Form TA-1 as required by existing transfer agent rules.⁵ In addition, the revised Form TA-2 would request that the transfer agent provide an explanation if it failed to file a required amendment to its Form TA-1. Form TA-2 also would contain a new question asking about the registrant’s use of service companies. Currently Form TA-2 requests transfer agents to report the number of items received for transfer and processing during the six months ending June 30. The proposal would amend this reporting period from six months to a uniform annual reporting period of twelve months ending June 30. Information relating to a transfer agent’s dividend disbursement and interest paying agent activities, and information related to the volume of open-end investment company securities purchases and redemptions a transfer agent processes would also be reported for the twelve months ending June 30, instead of for the preceding calendar year ending December 31. The revised Form TA-2 would also require that transfer agents reflect direct purchase and dividend reinvestment plan accounts in the total number of individual securityholder accounts maintained, and separately state the number of individual securityholder direct purchase and dividend reinvestment plan accounts. A question has also been added to revised Form TA-2 regarding the number of quarterly reports that were filed and that should have been filed by the registrant with its ARA⁶ during the reporting period pursuant to Rule 17Ad-11(c)(2)⁷ with respect to over-issuance and buy-in activities. ⁸ These figures currently must be reported for lost securityholder accounts outstanding for: one year or less, three years or less, five years or less, or more than five years. ⁹ SEC Rel. Nos. 33-7568, 34-40377, 35-26912, IA-1749, and IC-23416 (August 27, 1998), 63 FR 47051. The policy is available at the Commission’s website (www.sec.gov). Finally, the proposal would also ask transfer agents to report the number of months during the reporting period in which the registrant was not in compliance with the specified turnaround time for routine items pursuant to Rule 17Ad-2. The Revised TA-2 also would ask transfer agents to report the number of written notices the transfer agent filed and should have filed during the reporting period documenting its

noncompliance with turnaround time for routine items pursuant to Rule 17Ad-2. Rule 17a-24 – Lost Securityholder Accounts Currently, Rule 17a-24 requires registered transfer agents to report the aggregate number of lost securityholder accounts as of June 30 of each year and the percentage of total accounts represented by such lost securityholder accounts.⁸ Transfer agents also currently report information on the aging of lost securityholder accounts on Form TA-2. The proposed amendments would require that (1) transfer agents report on Form TA-2 the number of lost securityholders for which a first and for which a second data base search has been conducted and for which a correct address has been obtained as a result of these searches; (2) transfer agents continue, as required by Rule 17a-24, to report on Form TA-2 the current number of lost securityholder accounts that were remitted to the states during the last year; (3) the remaining information (i.e., aging of lost securityholder accounts) will no longer be required; and (4) Rule 17a-24 will then be rescinded. General Request for Comment The Commission anticipates that any amendments to Rule 17Ac2-2 and Form TA-2 would be adopted before the regulatory moratorium to facilitate the year 2000 conversion begins on June 1, 1999.⁹ The Commission requests comment on the specific extent to which the proposed amendments would require registered transfer agents to make major programming changes to their computer systems. Kathleen C. Joaquin Director – Transfer Agency & International Operations Attachment